FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(MARK ONE)

[X]ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999

OR

[_]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 1-10765

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware	23-2077891
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

UNIVERSAL CORPORATE CENTER
367 South Gulph Road P.O. Box 61558
King of Prussia, Pennsylvania

(Address of principal executive offices)	19406-0958 (Zip Code)

Registrant's telephone number, including area code: (610) 768-3300

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Class B Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Class D Common Stock, $.01 par value

(Title of each Class)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

The number of shares of the registrant's Class A Common Stock, $.01 par value, Class B Common Stock, $.01 par value, Class C Common Stock, $.01 par value, and Class D Common Stock, $.01 par value, outstanding as of January 31, 2000, was 2,030,566, 28,399,685, 204,593, and 24,353, respectively.

The aggregate market value of voting stock held by non-affiliates at January 31, 2000 $1,254,241,247. (For the purpose of this calculation, it was assumed that Class A, Class C, and Class D Common Stock, which are not traded but are convertible share-for-share into Class B Common Stock, have the same market value as Class B Common Stock.)

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for its 2000 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1999 (incorporated by reference under Part III).

PART I

ITEM 1. Business

The principal business of Universal Health Services, Inc. (together with its subsidiaries, the "Company") is owning and operating acute care hospitals, behavioral health centers, ambulatory surgery centers, radiation oncology centers and women's centers. Presently, the Company operates 47 hospitals, consisting of 21 acute care hospitals, 23 behavioral health centers, and two women's centers, in Arkansas, California, the District of Columbia, Florida, Georgia, Illinois, Indiana, Louisiana, Massachusetts, Michigan, Missouri, Nevada, New Jersey, Oklahoma, Pennsylvania, Puerto Rico, South Carolina, Texas and Washington. The Company, as part of its Ambulatory Treatment Centers Division, owns outright, or in partnership with physicians, and operates or manages 23 surgery and radiation oncology centers located in 12 states and the District of Columbia.

Services provided by the Company's hospitals include general surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services and behavioral health services. The Company provides capital resources as well as a variety of management services to its facilities, including central purchasing, information services, finance and control systems, facilities planning, physician recruitment services, administrative personnel management, marketing and public relations.

The Company selectively seeks opportunities to expand its base of operations by acquiring, constructing or leasing additional hospital facilities. Such expansion may provide the Company with access to new markets and new health care delivery capabilities. The Company also seeks to increase the operating revenues and profitability of owned hospitals by the introduction of new services, improvement of existing services, physician recruitment and the application of financial and operational controls. Pressures to contain health care costs and technological developments allowing more procedures to be performed on an outpatient basis have led payors to demand a shift to ambulatory or outpatient care wherever possible. The Company is responding to this trend by emphasizing the expansion of outpatient services. In addition, in response to cost containment pressures, the Company intends to implement programs designed to improve financial performance and efficiency while continuing to provide quality care, including more efficient use of professional and paraprofessional staff, monitoring and adjusting staffing levels and equipment usage, improving patient management and reporting procedures and implementing more efficient billing and collection procedures. The Company also continues to examine its facilities and to dispose of those facilities which it believes do not have the potential to contribute to the Company's growth or operating strategy.

The Company is involved in continual development activities. Applications to state health planning agencies to add new services in existing hospitals are currently on file in states which require certificates of need (e.g., Washington, D.C.). Although the Company expects that some of these applications will result in the addition of new facilities or services to the Company's operations, no assurances can be made for ultimate success by the Company in these efforts.

Recent and Proposed Acquisitions and Development Activities

In 1999, the Company proceeded with its development of new facilities and consummated a number of acquisitions.

In April 1999 the Company acquired three behavioral health facilities: the Hampton Hospital and Hampton Learning Center in Westhampton, New Jersey, Hartgrove Hospital in Chicago, Illinois and The Midwest Center for Youth and Families in Kouts, Indiana.

In June 1999 the Company acquired the assets and operations of Doctors' Hospital of Laredo in exchange for the assets and operations of its Victoria Regional Medical Center. In connection with this transaction, the Company also purchased additional land in Laredo, Texas on which it expects to construct a replacement hospital scheduled to be completed in 2001.

Bed Utilization and Occupancy Rates

The following table shows the historical bed utilization and occupancy rates for the hospitals operated by the Company for the years indicated. Accordingly, information related to hospitals acquired during the five year period has been included from the respective dates of acquisition, and information related to hospitals divested during the five year period has been included up to the respective dates of divestiture.

	1999	1998	1997	1996	1995
Average Licensed Beds:					
Acute Care Hospitals....	4,806	4,696	3,389	3,018	2,638
Behavioral Health Centers................	1,976	1,782	1,777	1,565	1,238
Average Available Beds(1):					
Acute Care Hospitals....	4,099	3,985	2,951	2,641	2,340
Behavioral Health Centers................	1,961	1,767	1,762	1,540	1,223
Admissions:					
Acute Care Hospitals....	204,538	187,833	128,020	111,244	91,298
Behavioral Health Centers................	37,810	32,400	28,350	22,295	15,329
Average Length of Stay (Days):					
Acute Care Hospitals....	4.7	4.7	4.8	4.9	5.1
Behavioral Health Centers................	11.8	11.3	11.9	12.4	12.8
Patient Days(2):					
Acute Care Hospitals....	963,842	884,966	616,965	546,237	462,054
Behavioral Health Centers................	444,632	365,935	336,850	275,667	195,961
Occupancy Rate--Licensed Beds(3):					
Acute Care Hospitals....	55%	52%	50%	49%	48%
Behavioral Health Centers................	62%	56%	52%	48%	43%
Occupancy Rate--Available Beds(3):					
Acute Care Hospitals....	64%	61%	57%	57%	54%
Behavioral Health Centers................	62%	57%	52%	49%	44%

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(1) "Average Available Beds" is the number of beds which are actually in service at any given time for immediate patient use with the necessary equipment and staff available for patient care. A hospital may have appropriate licenses for more beds than are in service for a number of reasons, including lack of demand, incomplete construction, and anticipation of future needs.

(2) "Patient Days" is the aggregate sum for all patients of the number of days that hospital care is provided to each patient.

(3) "Occupancy Rate" is calculated by dividing average patient days (total patient days divided by the total number of days in the period) by the number of average beds, either available or licensed.

The number of patient days of a hospital is affected by a number of factors, including the number of physicians using the hospital, changes in the number of beds, the composition and size of the population of the community in which the hospital is located, general and local economic conditions, variations in local medical and surgical practices and the degree of outpatient use of the hospital services. Current industry trends in utilization and occupancy have been significantly affected by changes in reimbursement policies of third party payors. A continuation of such industry trends could have a material adverse impact upon the Company's future operating performance. The Company has experienced growth in outpatient utilization over the past several years. The Company is unable to predict the rate of growth and resulting impact on the Company's future revenues because it is dependent upon developments in medical technologies and physician practice patterns, both of which are outside of the Company's control. The Company is also unable to predict the extent to which other industry trends will continue or accelerate.

Sources of Revenue

The Company receives payment for services rendered from private insurers, including managed care plans, the federal government under the Medicare program, state governments under their respective Medicaid programs and directly from patients. All of the Company's acute care hospitals and most of the Company's behavioral health centers are certified as providers of Medicare and Medicaid services by the appropriate governmental authorities. The requirements for certification are subject to change, and, in order to remain qualified for such programs, it may be necessary for the Company to make changes from time to time in its facilities, equipment, personnel and services. The costs for recertification are not material as many of the requirements for recertification are integrated with the Company's internal quality control processes. If a facility loses certification, it will be unable to receive payment for patients under the Medicare or Medicaid programs. Although the Company intends to continue in such programs, there is no assurance that it will continue to qualify for participation.

The sources of the Company's hospital revenues are charges related to the services provided by the hospitals and their staffs, such as radiology, operating rooms, pharmacy, physiotherapy and laboratory procedures, and basic charges for the hospital room and related services such as general nursing care, meals, maintenance and housekeeping. Hospital revenues depend upon the occupancy for inpatient routine services, the extent to which ancillary services and therapy programs are ordered by physicians and provided to patients, the volume of outpatient procedures and the charges or negotiated payment rates for such services. Charges and reimbursement rates for inpatient routine services vary depending on the type of bed occupied (e.g., medical/surgical, intensive care or psychiatric) and the geographic location of the hospital.

McAllen Medical Center located in McAllen, Texas and Edinburg Regional Medical Center located in Edinburg, Texas operate within the same market. On a combined basis, these two facilities contributed 13% in both 1999 and 1998 and 16% in 1997 of the Company's consolidated net revenues and 25% in 1999, 23% in 1998 and 25% in 1997 of the Company's consolidated earnings before depreciation, amortization, interest, income taxes and nonrecurring charges (after deducting an allocation of corporate overhead)("EBITDA"). During the first quarter of 1998, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center and its newly-constructed Summerlin Hospital Medical Center in exchange for a 72.5% interest in a series of newly-formed limited liability corporations ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital and $11 million of net cash to the LLCs. All three acute care facilities operate within the Las Vegas, Nevada market. On a combined basis, these three facilities contributed 18% of the Company's consolidated net revenues in both 1999 and 1998 and 10% in 1999 and 15% in 1998 of the Company's consolidated EBITDA. The decrease in the combined operating margins was primarily due to: (i) a capitation arrangement which began during 1999 pursuant to the terms of which the facilities assumed a greater share of risk, and; (ii) collection issues resulting from continued delays in payments from managed care payors. The capitation arrangement has been replaced by a standard per diem contract commencing in January, 2000. Valley Hospital Medical Center and Summerlin Hospital Medical Center (which opened during the fourth quarter of 1997) contributed 13% of the Company's 1997 consolidated net revenues and 18% of the Company's 1997 consolidated EBITDA.

The following table shows approximate percentages of net patient revenue derived by the Company's hospitals owned as of December 31, 1999 since their respective dates of acquisition by the Company from third party sources, including the additional Medicaid reimbursements received at four of the Company's acute care facilities located in Texas and one in South Carolina totaling $37.0 million in 1999, $36.5 million in 1998, $33.4

million in 1997, $17.8 million in 1996 and $12.6 million in 1995, and from all other sources during the five years ended December 31, 1999.

	PERCENTAGE OF NET PATIENT REVENUES				
	1999	1998	1997	1996	1995
Third Party Payors:					
Medicare	33.5%	34.3%	35.6%	35.6%	35.1%
Medicaid	12.6%	11.3%	14.5%	15.3%	13.7%
Managed Care (a)	31.5%	27.2%	19.1%	N/A	N/A
Other Sources	22.4%	27.2%	30.8%	49.1%	51.2%
Total	100%	100%	100%	100%	100%

(a) Includes health maintenance organizations and preferred provider organizations.

N/A-Not available

Regulation and Other Factors

Within the statutory framework of the Medicare and Medicaid programs, there are substantial areas subject to administrative rulings, interpretations and discretion which may affect payments made under either or both of such programs and reimbursement is subject to audit and review by third party payors. Management believes that adequate provision has been made for any adjustments that might result therefrom.

The Federal government makes payments to participating hospitals under its Medicare program based on various formulas. The Company's general acute care hospitals are subject to a prospective payment system ("PPS"). PPS pays hospitals a predetermined amount per diagnostic related group ("DRG") based upon a hospital's location and the patient's diagnosis.

Behavioral health facilities, which are excluded from PPS, are cost reimbursed by the Medicare program, but are subject to a per discharge ceiling, calculated based on an annual allowable rate of increase over the hospital's base year amount under the Medicare law and regulations. Capital related costs are exempt from this limitation. In the Balanced Budget Act of 1997, Congress significantly revised the Medicare payment provisions for PPS-excluded hospitals, including psychiatric hospitals. Effective for Medicare cost reporting periods beginning on or after October 1, 1997, different caps are applied to psychiatric hospitals' target amounts depending whether a hospital was excluded from PPS before or after that date. Congress also revised the rate-of-increase percentages for PPS-excluded hospitals and eliminated the new provider PPS-exemption for psychiatric hospitals. In addition, the Health Care Financing Administration has implemented requirements applicable to psychiatric hospitals that share a facility or campus with another hospital.

On August 30, 1991, the Health Care Financing Administration issued final Medicare regulations establishing a PPS for inpatient hospital capital-related costs. These regulations apply to hospitals which are reimbursed based upon the prospective payment system and took effect for cost report years beginning on or after October 1, 1991. For most of the Company's hospitals, the new methodology began on January 1, 1992.

The regulations provide for the use of a 10-year transition period in which a blend of the old and new capital payment provisions will be utilized. One of two methodologies will apply during the 10-year transition period: if the hospital's hospital-specific capital rate exceeds the federal capital rate, the hospital will be paid on the basis of a "hold harmless" methodology, which is a blend of a portion of old capital and an amount of new capital and a prospectively determined national federal capital rate; or, with limited exceptions, if the hospital-specific rate is below the federal capital rate, the hospital will receive payments based upon a "fully prospective" methodology, which is a blend of the hospital's hospital-specific capital rate and a prospectively determined national federal capital rate. Each hospital's hospital-specific rate was determined based upon allowable capital costs incurred during the "base year", which, for most of the Company's hospitals, is the year ended

December 31, 1990. Most of the Company's hospitals are paid under the "hold harmless" methodology except for five hospitals, which are paid under the "fully prospective" methodology. Updated amounts and factors necessary to determine PPS rates for Medicare hospital inpatient services for operating costs and capital related costs are published annually and were last published on July 30, 1999. In fiscal 2000, hospitals receive an inpatient PPS inflation update factor of market-basket minus 1.8 percent, as mandated by Congress in the Balanced Budget Act (or 1.1 percent).

The Company can provide no assurances that the reductions in the PPS update, and other changes required by the Balanced Budget Act, will not adversely affect its operations. However, within certain limits, a hospital can manage its costs, and, to the extent this is done effectively, a hospital may benefit from the DRG system. However, many hospital operating costs are incurred in order to satisfy licensing laws, standards of the Joint Commission on the Accreditation of Healthcare Organizations and quality of care concerns. In addition, hospital costs are affected by the level of patient acuity, occupancy rates and local physician practice patterns, including length of stay judgments and number and type of tests and procedures ordered. A hospital's ability to control or influence these factors which affect costs is, in many cases, limited.

In addition to the trends described above that continue to have an impact on the operating results, there are a number of other more general factors affecting the Company's business. The Balanced Budget Act of 1997 called for the government to trim the growth of federal spending on Medicare by $115 billion and on Medicaid by $13 billion over the next five years. The act also calls for reductions in the future rate of increases to payments made to hospitals and reduces the amount of reimbursement for outpatient services, bad debt expense and capital costs. It is possible that future budgets will contain certain further reductions in the rate of increase of Medicare and Medicaid spending.

In addition to Federal health reform efforts, several states have adopted or are considering healthcare reform legislation. Several states are planning to consider wider use of managed care for their Medicaid populations and providing coverage for some people who presently are uninsured. The enactment of Medicaid managed care initiatives is designed to provide low-cost coverage. The Company currently operates three behavioral health centers with a total of 268 beds in Massachusetts, which has mandated hospital rate-setting. The Company also operates three hospitals containing an aggregate of 688 beds in Florida that are subject to a mandated form of rate-setting if increases in hospital revenues per admission exceed certain target percentages.

In 1991, the Texas legislature authorized the LoneSTAR Health Initiative, a pilot program in two areas of the state, to establish for Medicaid beneficiaries a health care delivery system based on managed care principles. The program is now known as the STAR Program, which is short for State of Texas Access Reform. Since 1995, the Texas Health and Human Services Commission, with the help of other Texas agencies such as the Texas Department of Health, has rolled out STAR Medicaid managed care pilot programs in several geographic areas of the state. Under the STAR program, the Texas Department of Health either contracts with health maintenance organizations in each area to arrange for covered services to Medicaid beneficiaries, or contracts directly with health care providers and oversees the furnishing of care in the role of the case manager. Two carve-out pilot programs are the STAR+PLUS program, which provides long-term care to elderly and disabled Medicaid beneficiaries in the Harris County service area, and the NorthSTAR program, which furnishes behavioral health services to Medicaid beneficiaries in the Dallas County service area. Effective fall 1999, however, the Texas legislature imposed a moratorium on the implementation of additional pilot programs pending receipt of a study of the effectiveness of Medicaid managed care. The study is due on November 1, 2000, and the extent of further implementation of or changes to Medicaid managed care will likely depend upon the legislature's response to the study. The Company is unable to predict the effect on the Company's business of such current or future pilot programs.

Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, four of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Included in the Company's financial results was an aggregate of $37.0 million in 1999, $36.5 million in 1998, and $33.4 million in 1997, received pursuant to the terms of these programs.

Failure to renew these programs, which are scheduled to terminate in the third quarter of 2000, or further reduction in reimbursement, could have a material adverse effect on the Company's future results of operation.

The federal self-referral and payment prohibitions (codified in 42 U.S.C. Section 1395nn, Section 1877 of the Social Security Act) generally forbid, absent qualifying for one of the exceptions, a physician from making referrals for the furnishing of any "designated health services," for which payment may be made under the Medicare or Medicaid programs, to any entity with which the physician (or an immediate family member) has a "financial relationship." The legislation was effective January 1, 1992 for clinical laboratory services ("Stark I") and January 1, 1995 for ten other designated health services ("Stark II"). A "financial relationship" under Stark I and II includes any direct or indirect "compensation arrangement" with an entity for payment of any remuneration, and any direct or indirect "ownership or investment interest" in the entity. The legislation contains certain exceptions including, for example, where the referring physician has an ownership interest in a hospital as a whole or where the physician is an employee of an entity to which he or she refers. The Stark I and II self-referral and payment prohibitions include specific reporting requirements providing that each entity providing covered items or services must provide the Secretary with certain information concerning its ownership, investment, and compensation arrangements. In August 1995, HCFA published a final rule regarding physician self-referrals for clinical lab services. On January 9, 1998, HCFA published a proposed rule regarding physician self referrals for the ten other designated health services. Penalties for violating Stark I and Stark II include denial of payment for any services rendered by an entity in violation of the prohibitions, civil money penalties of up to $15,000 for each offense, and exclusion from the Medicare and Medicaid programs.

Starting in 1991, the Inspector General of the Department of Health and Human Services ("HHS") issued regulations which provide for "safe harbors" from the federal anti-kickback statute; if an arrangement or transaction meets each of the standards established for a particular safe harbor, the arrangement will not be subject to challenge by the Inspector General. If an arrangement does not meet the safe harbor criteria, it will be subject to scrutiny under its particular facts and circumstances to determine whether it violates the federal anti-kickback statute which prohibits, in general, fraudulent and abusive practices, and enforcement action may be taken by the Inspector General. In addition to the investment interests safe harbor, other safe harbors include space rental, equipment rental, personal service/management contracts, sales of a physician practice, referral services, warranties, employees, discounts and group purchasing arrangements, among others. The criminal sanctions for a conviction under the anti-kickback statute include imprisonment, fines, or both. Civil sanctions include exclusion from federal and state health care programs.

The Company does not anticipate that either the Stark provisions or the safe harbor regulations to the federal anti-kickback statute will have material adverse effects on its operations.

Regulations related to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") are expected to impact the Company and others in the healthcare industry by:

(i) Establishing standardized code sets for financial and clinical electronic data interchange ("EDI") transactions to enable more efficient flow of information. Currently there is no common standard for the transfer of information between the constituents in healthcare and therefore providers have had to conform to each standard utilized by every party with which they interact. The goal of HIPAA is to create one common national standard for EDI and once the HIPAA regulation takes effect, payors will be required to accept the national standard employed by providers.

(ii) Mandating the adoption of security standards to preserve the confidentiality of health information that identifies individuals. Currently there is no recognized healthcare standard that includes all the necessary components to protect the data integrity and confidentiality of a patient's personal health record. The Department of Health and Human Services, with assistance from standards development organizations and business interests, is currently developing the standard.

(iii) Creating unique identifiers for the four constituents in healthcare: payors, providers, patients and employers. HIPAA will mandate the need for the unique identifiers for healthcare providers in an effort to ease the administrative challenge of maintaining and transmitting clinical data across disparate episodes of patient care.

The Secretary of the Department of Health and Human Services is expected to issue new HIPAA regulations (expected to be released in May, 2000) related to administrative simplification with the requirement that these guidelines be implemented within two years of their release. Non-compliance may result in fines, loss of accreditation and/or threat of civil litigation. This HIPAA assessment is based on information currently available to the Company and the Company has begun preliminary planning for implementation of the necessary changes required pursuant to the terms of HIPAA. However, the Company can not currently estimate the implementation cost of the HIPAA related modifications and consequently can give no assurances that issues related to HIPAA will not have a material adverse effect on the Company's financial condition or results of operations.

Several states, including Florida and Nevada, have passed legislation which limits physician ownership in medical facilities providing imaging services, rehabilitation services, laboratory testing, physical therapy and other services. This legislation is not expected to significantly affect the Company's operations. Many states have laws and regulations which prohibit payments for referral of patients and fee-splitting with physicians. The Company does not make any such payments or have any such arrangements.

All hospitals are subject to compliance with various federal, state and local statutes and regulations and receive periodic inspection by state licensing agencies to review standards of medical care, equipment and cleanliness. The Company's hospitals must comply with the conditions of participation and licensing requirements of federal, state and local health agencies, as well as the requirements of municipal building codes, health codes and local fire departments. In granting and renewing licenses, a department of health considers, among other things, the physical buildings and equipment, the qualifications of the administrative personnel and nursing staff, the quality of care and continuing compliance with the laws and regulations relating to the operation of the facilities. State licensing of facilities is a prerequisite to certification under the Medicare and Medicaid programs. Various other licenses and permits are also required in order to dispense narcotics, operate pharmacies, handle radioactive materials and operate certain equipment. All the Company's eligible hospitals have been accredited by the Joint Commission on the Accreditation of Healthcare Organizations ("JCAHO"). The JCAHO reviews each hospital's accreditation once every three years. The review period for each state's licensing body varies, but generally ranges from once a year to once every three years.

The Social Security Act and regulations thereunder contain numerous provisions which affect the scope of Medicare coverage and the basis for reimbursement of Medicare providers. Among other things, this law provides that in states which have executed an agreement with the Secretary of the Department of Health and Human Services (the "Secretary"), Medicare reimbursement may be denied with respect to depreciation, interest on borrowed funds and other expenses in connection with capital expenditures which have not received prior approval by a designated state health planning agency. Additionally, many of the states in which the Company's hospitals are located have enacted legislation requiring certificates of need ("CON") as a condition prior to hospital capital expenditures, construction, expansion, modernization or initiation of major new services. Failure to obtain necessary state approval can result in the inability to complete an acquisition or change of ownership, the imposition of civil or, in some cases, criminal sanctions, the inability to receive Medicare or Medicaid reimbursement or the revocation of a facility's license. The Company has not experienced and does not expect to experience any material adverse effects from those requirements.

Health planning statutes and regulatory mechanisms are in place in many states in which the Company operates. These provisions govern the distribution of healthcare services, the number of new and replacement hospital beds, administer required state CON laws, contain healthcare costs, and meet the priorities established therein. Significant CON reforms have been proposed in a number of states, including increases in the capital spending thresholds and exemptions of various services from review requirements. The Company is unable to predict the impact of these changes upon its operations.

Federal regulations provide that admissions and utilization of facilities by Medicare and Medicaid patients must be reviewed in order to insure efficient utilization of facilities and services. The law and regulations require Peer Review Organizations ("PROs") to review the appropriateness of Medicare and Medicaid patient admissions and discharges, the quality of care provided, the validity of DRG classifications and the appropriateness of cases of extraordinary length of stay. PROs may deny payment for services provided, assess fines and also have the authority to recommend to HHS that a provider that is in substantial non-compliance with the standards of the PRO be excluded from participating in the Medicare program. The Company has contracted with PROs in each state where it does business as to the scope of such functions.

The Company's healthcare operations generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. In 1988, Congress passed the Medical Waste Tracking Act. Infectious waste generators, including hospitals, now face substantial penalties for improper arrangements regarding disposal of medical waste, including civil penalties of up to $25,000 per day of noncompliance, criminal penalties of $150,000 per day, imprisonment, and remedial costs. The comprehensive legislation establishes programs for medical waste treatment and disposal in designated states. The legislation also provides for sweeping inspection authority in the Environmental Protection Agency, including monitoring and testing. The Company believes that its disposal of such wastes is in compliance with all state and federal laws.

Medical Staff and Employees

The Company's hospitals are staffed by licensed physicians who have been admitted to the medical staff of individual hospitals. With a few exceptions, physicians are not employees of the Company's hospitals and members of the medical staffs of the Company's hospitals also serve on the medical staffs of hospitals not owned by the Company and may terminate their affiliation with the Company's hospitals at any time. Each of the Company's hospitals is managed on a day-to-day basis by a managing director employed by the Company. In addition, a Board of Governors, including members of the hospital's medical staff, governs the medical, professional and ethical practices at each hospital. The Company's facilities had approximately 19,350 employees at December 31, 1999, of whom 13,562 were employed full-time.

Approximately 1,547 of the Company's employees at six of its hospitals are unionized. At Valley Hospital, unionized employees belong to the Culinary Workers and Bartenders Union, the International Union of Operating Engineers and the Service Employees International Union. Registered nurses at Auburn Regional Medical Center located in Washington State, are represented by the United Staff Nurses Union, the technical employees are represented by the United Food and Commercial Workers, and the service employees are represented by the Service Employees International Union. At The George Washington University Hospital, unionized employees are represented by the Service Employees International Union and the Hospital Police Association. Nurses at Desert Springs Hospital are represented by the Service Employees International Union. The registered nurses, licensed practical nurses, certain technicians and therapists, and housekeeping employees at HRI Hospital in Boston are represented by the Service Employees International Union. Unionized employees at Hospital San Fransisco in Puerto Rico are represented by the Labor Union of Nurses and Health Employees. The Company believes that its relations with its employees are satisfactory.

Competition

In all geographical areas in which the Company operates, there are other hospitals which provide services comparable to those offered by the Company's hospitals, some of which are owned by governmental agencies and supported by tax revenues, and others of which are owned by nonprofit corporations and may be supported to a large extent by endowments and charitable contributions. Such support is not available to the Company's hospitals. Certain of the Company's competitors have greater financial resources, are better equipped and offer a broader range of services than the Company. Outpatient treatment and diagnostic facilities, outpatient surgical centers and freestanding ambulatory surgical centers also impact the healthcare marketplace. In recent years, competition among healthcare providers for patients has intensified as hospital occupancy rates in the United States have declined due to, among other things, regulatory and technological changes, increasing use of

managed care payment systems, cost containment pressures, a shift toward outpatient treatment and an increasing supply of physicians. The Company's strategies are designed, and management believes that its facilities are positioned, to be competitive under these changing circumstances.

Liability Insurance

Effective January 1, 1998, the Company's subsidiaries are covered under commercial insurance policies which provide for a self-insured retention limit for professional and general liability claims for most of its subsidiaries up to $1 million per occurrence, with an average annual aggregate for covered subsidiaries of $6 million through 2001. These subsidiaries maintain excess coverage up to $100 million with major insurance carriers. The Company's remaining facilities are fully insured under commercial policies with excess coverage up to $100 million maintained with major insurance carriers. During 1996 and 1997, most of the Company's subsidiaries were self-insured for professional and general liability claims up to $5 million per occurrence, with excess coverage maintained up to $100 million with major insurance carriers. From 1986 to 1995, these subsidiaries were self-insured for professional and general liability claims up to $25 million and $5 million per occurrence, respectively. Since 1993, certain of the Company's subsidiaries, including one of its larger acute care facilities, have purchased general and professional liability occurrence policies with commercial insurers. These policies include coverage up to $25 million per occurrence for general and professional liability risks.

Relations with Universal Health Realty Income Trust

The Company serves as advisor to Universal Health Realty Income Trust ("UHT"), which leases to the Company the real property of 7 hospital facilities operated by the Company with terms expiring in 2000 through 2006. These leases contain up to six 5-year renewal options. During 1999, the Company sold the real property of a medical office building to the Trust for cash proceeds of approximately $13 million. Tenants in the multi-tenant building include subsidiaries of the Company as well as unrelated parties. During 1998, the Company exercised five-year renewal options on four hospitals leased from the Trust which were scheduled to expire in 1999 through 2001. The leases on these facilities were renewed at the same lease rates and terms as the initial leases. In addition, UHT holds interests in properties owned by unrelated companies. The Company receives a fee for its advisory services based on the value of UHT's assets. In addition, certain of the directors and officers of the Company serve as trustees and officers of UHT. As of January 31, 1999, the Company owned 8% of UHT's outstanding shares and the Company currently has an option to purchase UHT shares in the future at fair market value to enable it to maintain a 5% interest.

Executive Officers of the Registrant

The executive officers of the Company, whose terms will expire at such time as their successors are elected, are as follows:

Name and Age	Present Position with the Company
Alan B. Miller (62)	Director, Chairman of the Board, President and Chief Executive Officer
Kirk E. Gorman (49)	Senior Vice President and Chief Financial Officer
Thomas J. Bender (47)	Senior Vice President
Steve G. Filton (42)	Vice President, Controller and Secretary
Debra Osteen (44)	Vice President
Richard C. Wright (52)	Vice President

Mr. Alan B. Miller has been Chairman of the Board, President and Chief Executive Officer of the Company since its inception. Prior thereto, he was President, Chairman of the Board and Chief Executive Officer of American Medicorp, Inc.

Mr. Gorman was elected Senior Vice President and Chief Financial Officer in December 1992, and has served as Vice President and Treasurer of the Company since April 1987. From 1984 until then, he served as Senior Vice President of Mellon Bank, N.A. Prior thereto, he served as Vice President of Mellon Bank, N.A.

Mr. Wright was elected Vice President of the Company in May 1986. He has served in various capacities with the Company since 1978 and currently heads the Development function.

Mr. Bender was elected Senior Vice President and head of the Acute Care Hospital Division of the Company in January 2000. Since 1988 he served as Vice President of the Company responsible for the Behavioral Health Division.

Mr. Filton has been Vice President and Controller of the Company since November 1991. Prior thereto he had served as Director of Accounting and Control. In September 1999, he was elected Secretary of the Company.

Ms. Osteen was elected Vice President of the Company in January 2000, responsible for the Behavioral Health Division. She has served in various capacities with the Company since 1984 including responsibility for approximately one-half of the Behavioral Health Division's facilities.

ITEM 2. Properties

Executive Offices

The Company owns an office building with 68,000 square feet available for use located on 11 acres of land in King of Prussia, Pennsylvania.

Facilities

The following tables set forth the name, location, type of facility and, for acute care hospitals and behavioral health centers, the number of beds, for each of the Company's facilities:

Acute Care Hospitals

Name of Facility	Location	Number of Beds	Ownership Interest
Aiken Regional Medical Centers................	Aiken, South Carolina	225	Owned
Auburn Regional Medical Center.................	Auburn, Washington	149	Owned
Chalmette Medical Center(5).............	Chalmette, Louisiana	195	Leased
Desert Springs Hospital(2)...........	Las Vegas, Nevada	233	Owned
Doctors' Hospital of Laredo................	Laredo, Texas	117	Owned
Doctors' Hospital of Shreveport(3)..........	Shreveport, Louisiana	136	Leased
Edinburg Regional Medical Center.........	Edinburg, Texas	169	Owned
The George Washington University Hospital(4)...........	Washington, D.C.	501	Owned
Hospital San Francisco..	Rio Piedras, Puerto Rico	160	Owned
Hospital San Pablo......	Bayamon, Puerto Rico	430	Owned
Hospital San Pablo del Este..................	Fajardo, Puerto Rico	180	Owned
Inland Valley Regional Medical Center(1)......	Wildomar, California	80	Leased
Manatee Memorial Hospital..............	Bradenton, Florida	512	Owned
McAllen Medical Center(1).............	McAllen, Texas	490	Leased
Northern Nevada Medical Center(4).............	Sparks, Nevada	100	Owned
Northwest Texas Healthcare System......	Amarillo, Texas	357	Owned
River Parishes Hospitals.............	LaPlace and Chalmette, Louisiana	106	Owned
Summerlin Hospital Medical Center(2)......	Las Vegas, Nevada	166	Owned
Valley Hospital Medical Center(2).............	Las Vegas, Nevada	417	Owned
Wellington Regional Medical Center(1)......	West Palm Beach, Florida	120	Leased

Behavioral Health Centers

Name of Facility	Location	Number of Beds	Ownership Interest
The Arbour Hospital.....	Boston, Massachusetts	118	Owned
The BridgeWay(1)........	North Little Rock, Arkansas	70	Leased
Clarion Psychiatric Center................	Clarion, Pennsylvania	70	Owned
Del Amo Hospital........	Torrance, California	166	Owned
Forest View Hospital....	Grand Rapids, Michigan	62	Owned
Fuller Memorial Hospital..............	South Attleboro, Massachusetts	82	Owned
Glen Oaks Hospital......	Greenville, Texas	54	Owned
The Horsham Clinic......	Ambler, Pennsylvania	146	Owned
HRI Hospital...........	Brookline, Massachusetts	68	Owned
KeyStone Center(6)......	Wallingford, Pennsylvania	100	Owned
La Amistad Residential Treatment Center.......	Maitland, Florida	56	Owned
The Meadows Psychiatric Center................	Centre Hall, Pennsylvania	101	Owned
Meridell Achievement Center(1).............	Austin, Texas	114	Leased
The Pavilion...........	Champaign, Illinois	46	Owned
River Crest Hospital....	San Angelo, Texas	80	Owned
River Oaks Hospital.....	New Orleans, Louisiana	126	Owned
Hampton Hospital........	Westhampton, New Jersey	100	Owned
Hartgrove Hospital......	Chicago, Illinois	119	Owned
The Midwest Center for Youth and Families.....	Kouts, Indiana	50	Owned

Behavioral Health Centers, continued

Name of Facility	Location	Number of Beds	Ownership Interest
Roxbury(6)	Shippensburg, Pennsylvania	75	Owned
Timberlawn Mental Health System	Dallas, Texas	124	Owned
Turning Point Care Center(6)	Moultrie, Georgia	59	Owned
Two Rivers Psychiatric Hospital	Kansas City, Missouri	80	Owned

Ambulatory Surgery Centers

Name of Facility(7)	Location
Arkansas Surgery Center of Fayetteville	Fayetteville, Arkansas
Goldring Surgical and Diagnostic Center	Las Vegas, Nevada
Northwest Texas Surgery Center	Amarillo, Texas
Outpatient Surgical Center of Ponca City	Ponca City, Oklahoma
Plaza Surgery Center	Las Vegas, Nevada
St. George Surgical Center	St. George, Utah
Hope Square Surgery Center	Rancho Mirage, California
Surgery Center of Littleton	Littleton, Colorado
Surgery Center of Midwest City	Midwest City, Oklahoma
Surgery Center of Springfield	Springfield, Missouri
Surgical Center of New Albany	New Albany, Indiana

Radiation Oncology Centers

Name of Facility	Location
Auburn Regional Center for Cancer Care	Auburn, Washington
Bluegrass Cancer Center(8)	Frankfort, Kentucky
Bowling Green Radiation Therapy(9)	Bowling Green, Kentucky
Cancer Institute of Nevada(10)	Las Vegas, Nevada
Carolina Cancer Center	Aiken, South Carolina
Columbia Radiation Oncology Center	Washington, D.C.
Danville Radiation Therapy Center(8)	Danville, Kentucky
Glasgow Radiation Therapy(9)	Glasgow, Kentucky
Louisville Radiation Oncology Center(8)	Louisville, Kentucky
Madison Radiation Therapy(10)	Madison, Indiana
Southern Indiana Radiation Therapy(10)	Jeffersonville, Indiana
Radiation Therapy Medical Associates of Bakersfield(11)	Bakersfield, California

Specialized Women's Health Centers

Name of Facility	Location
Renaissance Women's Center of Edmond(10)	Edmond, Oklahoma
Renaissance Women's Center of Austin(10)	Austin, Texas

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(1) Real property leased from UHT.
(2) Desert Springs Hospital, Summerlin Hospital Medical Center and Valley Hospital Medical Center are owned by a limited liability company in which the Company has a 72.5% interest and Quorum's subsidiary, NC-DSH, Inc., has a 27.5% interest. All hospitals are managed by the Company.
(3) Real property leased with an option to purchase.
(4) General partnership interest in limited partnership.

(5) Includes Chalmette Medical Center, which is a 118-bed medical/surgical facility and The Virtue Street Pavilion, a 77-bed facility consisting of a physical rehabilitation unit, skilled nursing and inpatient behavioral health services. The real property of both facilities is leased from UHT.
(6) Addictive disease facility.
(7) Each facility, other than Goldring Surgical and Diagnostic Center and Northwest Texas Surgery Center, is owned in partnership form with the Company owning general and limited partnership interests in a limited partnership. The real property is leased from third parties.
(8) Majority interest in a limited liability partnership.
(9) Managed facility, not included in the Company's consolidated financial statements. A partnership, in which the Company is the general partner, owns the real property.
(10) Membership interest in limited liability company.
(11) Managed facility, not included in the Company's consolidated financial statements. A limited liability company, in which the Company is the sole member, owns the equipment, but the property is leased.

Some of these facilities are subject to mortgages, and substantially all the equipment located at these facilities is pledged as collateral to secure long-term debt. The Company owns or leases medical office buildings adjoining certain of its hospitals.

The Company believes that the leases or liens on the facilities leased or owned by the Company do not impose any material limitation on the Company's operations.

The aggregate lease payments on facilities leased by the Company in 1999 and 1998 aggregated $24.0 million and $22.2 million, respectively.

ITEM 3. Legal Proceedings

The Company is subject to claims and suits in the ordinary course of business, including those arising from care and treatment afforded at the Company's hospitals and is party to various other litigation. However, management believes the ultimate resolution of these pending proceedings will not have a material adverse effect on the Company.

ITEM 4. Submission of Matters to a Vote of Security Holders

Inapplicable. No matter was submitted during the fourth quarter of the fiscal year ended December 31, 1999 to a vote of security holders.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

See Item 6, Selected Financial Data

ITEM 6. Selected Financial Data

	Year Ended December 31				
	1999	1998	1997	1996	1995
Summary of Operations (in thousands)					
Net revenues	$ 2,042,380	$ 1,874,487	$ 1,442,677	$ 1,174,158	$ 919,193
Net income	$ 77,775	$ 79,558	$ 67,276	$ 50,671	$ 35,484
Net margin	3.8%	4.2%	4.7%	4.3%	3.9%
Return on average equity	12.1%	13.1%	13.5%	13.0%	12.4%
Financial Data (in thousands)					
Cash provided by operating activities	$ 175,557	$ 151,684	$ 174,170	$ 145,991	$ 91,749
Capital expenditures(1)	$ 68,695	$ 96,808	$ 132,258	$ 107,630	$ 65,695
Total assets	$ 1,497,973	$ 1,448,095	$ 1,085,349	$ 965,795	$ 748,051
Long-term borrowings	$ 419,203	$ 418,188	$ 272,466	$ 275,634	$ 237,086
Common stockholders' equity	$ 641,611	$ 627,007	$ 526,607	$ 452,980	$ 297,700
Percentage of total debt to total capitalization	40%	40%	35%	38%	45%
Operating Data--Acute Care Hospitals					
Average licensed beds	4,806	4,696	3,389	3,018	2,638
Average available beds	4,099	3,985	2,951	2,641	2,340
Hospital admissions	204,538	187,833	128,020	111,244	91,298
Average length of patient stay	4.7	4.7	4.8	4.9	5.1
Patient days	963,842	884,966	616,965	546,237	462,054
Occupancy rate for licensed beds	55%	52%	50%	49%	48%
Occupancy rate for available beds	64%	61%	57%	57%	54%
Operating Data--Behavioral Health Facilities					
Average licensed beds	1,976	1,782	1,777	1,565	1,238
Average available beds	1,961	1,767	1,762	1,540	1,223
Hospital admissions	37,810	32,400	28,350	22,295	15,329
Average length of patient stay	11.8	11.3	11.9	12.4	12.8
Patient days	444,632	365,935	336,850	275,667	195,961
Occupancy rate for licensed beds	62%	56%	52%	48%	43%
Occupancy rate for available beds	62%	57%	52%	49%	44%
Per Share Data					
Net income--basic(2)	$ 2.48	$ 2.45	$ 2.08	$ 1.69	$ 1.28
Net income--diluted(2)	$ 2.43	$ 2.39	$ 2.03	$ 1.65	$ 1.26
Other Information (in thousands)					
Weighted average number of shares outstanding--basic(2)	31,417	32,511	32,321	30,054	27,691
Weighted average number of shares and share equivalents outstanding--diluted(2)	31,990	33,293	33,098	30,798	28,103
Common Stock Performance					
Market price of common stock					
High--Low, by quarter(3)					

1st....................	53 -37 7/8	58 1/8 -47 1/16	34 5/8 -27 7/8	26 7/8-21 11/16	13 -11 3/8
2nd....................	54 7/8-39 1/2	59 5/8 -53	40 1/2 -31 5/8	30 1/8-24 3/8	14 13/16-12 7/16
3rd....................	47 3/8-23 11/16	58 1/2 -38 3/4	47 1/16-39 1/16	27 1/4-22 3/4	17 11/16-14
4th....................	36 1/2-24	54 5/16-40 7/16	50 3/8 -40 11/16	29 1/4-24 1/2	22 3/16 -16 1/8

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(1) Amount includes non-cash capital lease obligations.

(2) In April 1996, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid in May 1996. All classes of common stock participated on a pro rata basis. The weighted average number of common shares and equivalents and earnings per common and common equivalent share for all years presented have been adjusted to reflect the two-for-one stock split.

(3) These prices are the high and low closing sales prices of the Company's Class B Common Stock as reported by the New York Stock Exchange (all periods have been adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend paid in May 1996). Class A, C and D common stock are convertible on a share-for-share basis into Class B Common Stock.

Number of shareholders of record as of January 31, 2000, were as follows:

Class A Common	9
Class B Common	594
Class C Common	7
Class D Common	230

ITEM 7. Management's Discussion and Analysis of Operations and Financial Condition

Forward-Looking Statements

The matters discussed in this report as well as the news releases issued from time to time by the Company include certain statements containing the words "believes", "anticipates", "intends", "expects" and words of similar import, which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: that the majority of the Company's revenues are produced by a small number of its total facilities; possible changes in the levels and terms of reimbursement by government programs, including Medicare or Medicaid or other third party payors; industry capacity; demographic changes; existing laws and government regulations and changes in or failure to comply with laws and governmental regulations; the ability to enter into managed care provider agreements on acceptable terms; liability and other claims asserted against the Company; competition; the loss of significant customers; technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare; the ability to attract and retain qualified personnel, including physicians; the ability of the Company to successfully integrate its recent acquisitions; the Company's ability to finance growth on favorable terms; and, other factors referenced in the Company's 1999 Form 10-K or herein. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Results of Operations

Net revenues increased 9% to $2.0 billion in 1999 as compared to 1998 and 30% to $1.9 billion in 1998 as compared to 1997. The $168 million increase in net revenues during 1999 as compared to 1998 was due primarily to: (i) revenue growth at acute care and behavioral health care facilities owned during both years ($75 million, excluding a favorable $3 million prior year net revenue adjustment recorded in the second quarter of 1999 resulting from an adjustment to contractual allowances recorded in a prior year), and; (ii) the acquisition of three behavioral health facilities located in Illinois, Indiana and New Jersey and an acute care facility located in Laredo, Texas which were acquired during the second quarter of 1999 ($43 million, net of revenues generated at facility exchanged for the Laredo facility). The $432 million increase in net revenues during 1998 as compared to 1997 was due primarily to: (i) the acquisition of three acute care facilities located in Puerto Rico (one of which opened in April, 1998) and one acute care facility located in Las Vegas which were acquired during the first quarter of 1998, the acquisition of an 80% interest in a 501-bed acute care facility during the third quarter of 1997 and a newly constructed 148-bed acute care facility which opened during the fourth quarter of 1997 ($344 million), and; (ii) revenue growth at facilities owned during both periods ($58 million).

Earnings before interest, income taxes, depreciation, amortization, lease and rental expense, minority interests in earnings of consolidated entities and a $5.3 million nonrecurring charge recorded in 1999 (see other Operating Results) ("EBITDAR") increased to $319 million in 1999 from $311 million in 1998 and $245 million in 1997. Overall operating margins were 15.6% in 1999, 16.6% in 1998 and 17.0% in 1997. The factors causing the decrease in the Company's overall operating margins during the last three years are discussed below.

Acute Care Services

Net revenues from the Company's acute care hospitals, ambulatory treatment centers and specialized women's health centers accounted for 86%, 87% and 85% of consolidated net revenues in 1999, 1998 and 1997, respectively. Net revenues at the Company's acute care facilities owned in both 1999 and 1998 increased 4% in 1999 as compared to 1998 due primarily to a 5% increase in admissions and a 6% increase in patient days. The average length of stay at these facilities remained unchanged at 4.7 days in both 1999 and 1998. Net revenues at the Company's acute care facilities owned in both 1998 and 1997 increased 4% in 1998 as compared to 1997 due primarily to a 4% increase in admissions and a 1% increase in patient days. The average length of stay at these facilities decreased 3% to 4.7 days in 1998 as compared to 4.8 days in 1997.

The Company's facilities have experienced an increase in inpatient acuity and intensity of services as less intensive services shift from an inpatient basis to an outpatient basis due to technological and pharmaceutical improvements and continued pressures by payors, including Medicare, Medicaid and managed care companies to reduce admissions and lengths of stay. To accommodate the increased utilization of outpatient services, the Company has expanded or redesigned several of its outpatient facilities and services. Gross outpatient revenues at the Company's acute care facilities owned during the last three years increased 11% in 1999 as compared to 1998 and 14% in 1998 as compared to 1997, and comprised 26% of the Company's acute care gross patient revenue in each year. Despite the increase in patient volume at the Company's facilities, inpatient utilization continues to be negatively affected by payor-required, pre-admission authorization and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. Additionally, the hospital industry in the United States as well as the Company's acute care facilities continue to have significant unused capacity which has created substantial competition for patients. The Company expects the increased competition, admission constraints and payor pressures to continue.

The increase in net revenue as discussed above was partially offset by lower payments from the government under the Medicare program as a result of the Balanced Budget Act of 1997 ("BBA-97") and increased discounts to insurance and managed care companies (see General Trends for additional disclosure). The Company anticipates that the percentage of its revenue from managed care business will continue to increase in the future. The Company generally receives lower payments per patient from managed care payors than it does from traditional indemnity insurers. Additionally, the Company assumed a greater share of risk by entering into a capitated arrangement during 1999 with a managed care payor for its three acute care facilities located in Las Vegas, Nevada. The capitation contract, which contributed to the decline in the Company's earnings and operating margins during 1999 as compared to 1998, has been replaced by a standard per diem contract commencing in January, 2000.

At the Company's acute care facilities, operating expenses (operating expenses, salaries and wages and provision for doubtful accounts) as a percentage of net revenues were 81.6% in 1999, 79.9% in 1998 and 78.7% in 1997. Operating margins (EBITDAR) at these facilities were 18.4% in 1999, 20.1% in 1998 and 21.3% in 1997. During 1999, the Company's acute care division experienced earnings pressure due to government reimbursement reductions, continued increases in the provision for doubtful accounts and weakened operating performance at facilities in Las Vegas, Nevada and Amarillo, Texas. On a combined basis, the Company's three acute care facilities in Las Vegas and the acute care facility in Amarillo contributed 32% of the Company's acute care net revenue in both 1999 and 1998 and had operating margins of 15.7% in 1999 and 20.9% in 1998. Excluding the Las Vegas and Amarillo facilities, on a combined basis, the Company's other acute care facilities had operating margins of 19.6% in 1999 and 19.7% in 1998. The decrease in the combined operating margins of the Las Vegas facilities in 1999 as compared to 1998 was due primarily to the capitation agreement with a managed care provider, as mentioned above, and collection issues resulting from continued delays in payments from managed care payors. The operating margins at the Company's facility in Amarillo have been negatively impacted by reductions in Medicaid disproportionate share payments stemming from BBA-97 and program redesigns by Texas, reduced levels of business in a few high margin services and higher than anticipated indigent care costs.

The decrease in the operating margins in 1998 as compared to 1997 was due primarily to: (i) lower operating margins experienced at three acute care hospitals located in Puerto Rico (one of which opened in April 1998) and one acute care hospital located in Las Vegas, Nevada which were acquired during the first quarter of 1998; (ii) lower operating margins experienced at the 501-bed acute care facility of which the Company acquired an 80% interest in during the third quarter of 1997; (iii) the opening of a newly constructed 129-bed acute care

facility located in Edinburg, Texas during the third quarter of 1997 and the opening of a newly constructed 148-bed acute care facility in Summerlin, Nevada which opened during the fourth quarter of 1997; (iv) changes in Medicare payments mandated by the Balanced Budget Act of 1997 which became effective October 1, 1997, and; (v) $2.5 million of pre-tax adverse financial effects of Hurricane Georges ($2.3 million of which affected acute care facilities) which damaged property and curtailed business at three hospitals in Puerto Rico and four hospitals in Louisiana (three of which were acute care facilities) during the third quarter of 1998.

The Company's facilities continue to experience a shift in payor mix resulting from an increase in the percentage of revenues attributable to managed care payors and unfavorable general industry trends which include pressures to control healthcare costs. Providers participating in managed care programs agree to provide services to patients for a discount from established rates which generally results in pricing concessions by the providers and lower operating margins. Additionally, managed care companies generally encourage alternatives to inpatient treatment settings and reduced utilization of inpatient services. In response to increased pressure on revenues, the Company continues to implement cost control programs at its facilities including more efficient staffing standards and re-engineering of services. The Company's ability to increase its net revenues and operating margins, is dependent upon its ability to successfully respond to these trends as well as reductions in spending on governmental healthcare programs.

Operating expenses (operating expenses, salaries and wages and provision for doubtful accounts) at the Company's facilities owned in both 1999 and 1998 were 81.4% of net revenues in 1999 and 79.9% in 1998. Operating margins at the Company's acute care facilities owned in both 1999 and 1998 were 18.6% in 1999 as compared to 20.1% in 1998. The decrease in the same facility operating margins in 1999 as compared to 1998 was due primarily to the decreased operating performance at the Company's acute care facilities in Las Vegas, Nevada and Amarillo, Texas, as discussed above. Excluding the facilities in Las Vegas and Amarillo, the operating margins at the Company's other acute care facilities owned in both years increased to 20.1% in 1999 as compared to 19.7% in 1998. Operating expenses at the Company's acute care facilities owned in both 1998 and 1997 were 77.4% of net revenues in 1998 as compared to 78.5% in 1997. Operating margins at the Company's acute care facilities owned in both 1998 and 1997 were 22.6% in 1998 as compared to 21.5% in 1997. Pressure on operating margins may continue due to, among other things, the changes in Medicare payments mandated by BBA-97 which became effective October 1, 1997, reductions in Medicaid disproportionate share reimbursements and the industry-wide trend towards managed care which limits the Company's ability to increase its prices.

Behavioral Health Services

Net revenues from the Company's behavioral health services facilities accounted for 13%, 12% and 14% of consolidated net revenues in 1999, 1998 and 1997, respectively. Net revenues at the Company's behavioral health facilities owned in both 1999 and 1998 increased 3% in 1999 as compared to 1998. Admissions and patient days at these facilities increased 5% and 7%, respectively, in 1999 as compared to 1998 and the average length of stay increased to 11.5 days in 1999 as compared to 11.3 days in 1998. Net revenues at the Company's behavioral health services facilities owned in both 1998 and 1997 increased 7% in 1998 as compared to 1997 due to a 14% increase in admissions and a 9% increase in patient days. The average length of stay at these facilities decreased 5% to 11.3 days in 1998 as compared to 11.9 days in 1997.

The 2% increase in the average length of stay during 1999 as compared to 1998, was primarily due to an increase in child and adolescent patients, which generally have longer lengths of stay than adults. Many of the Company's behavioral health services facilities have begun or expanded child and adolescent inpatient programs in an effort to meet increased demand for these services. Despite the increase in the average length of stay during 1999 as compared to 1998, there has been continued practice changes in the delivery of behavioral health services and continued cost containment pressures from payors, including managed care companies, which include a greater emphasis on the utilization of outpatient services. Providers participating in managed care

programs agree to provide services to patients for a discount from established rates which generally results in pricing concessions by the providers and lower margins. Additionally, managed care companies generally encourage alternatives to inpatient treatment. The Company expects the admission constraints and payor pressure to continue.

Operating expenses (operating expenses, salaries and wages and provision for doubtful accounts) as a percentage of net revenues at the Company's behavioral health services facilities were 83.4% in 1999, 83.5% in 1998 and 82.8% in 1997. The Company's behavioral health services division generated operating margins (EBITDAR) of 16.6% in 1999, 16.5% in 1998 and 17.2% in 1997. On a same facility basis, operating expenses (operating expenses, salaries and wages and provision for doubtful accounts) at the Company's behavioral health services facilities owned in both 1999 and 1998 were 83.7% in 1999 and 83.5% in 1998. Operating margins (EBITDAR) at the Company's behavioral health services facilities owned in both 1999 and 1998 were 16.3% in 1999 and 16.5% in 1998. On a same facility basis, operating expenses at the Company's behavioral health services facilities owned in both 1998 and 1997 were 82.4% in 1998 and 82.2% in 1997. Operating margins at the Company's behavioral health services facilities owned in both 1998 and 1997 were 17.6% in 1998 and 17.8% in 1997. Management continues to implement cost controls in response to the managed care environment, however, pressure on operating margins is expected to continue in the future.

Other Operating Results

The Company recorded minority interest expense in the earnings of consolidated entities amounting to $6 million in 1999, $9 million in 1998 and $251,000 in 1997. The minority interest expense recorded during 1999 and 1998 consists primarily of the minority owners' share of the net income of four acute care facilities, three of which are located in Las Vegas, Nevada and one located in Washington, DC. The $3 million decrease in the minority interest expense in 1999 as compared to 1998 was due primarily to the unfavorable operating performance trends experienced at the Company's acute care facilities located in Las Vegas, Nevada.

Depreciation and amortization expense increased $3 million to $108 million in 1999 and increased $24 million to $105 million in 1998 as compared to $81 million in 1997. The increase during 1998 as compared to 1997 was due primarily to the four acute care hospitals acquired/opened during the first four months of 1998 (three in Puerto Rico and one in Las Vegas) and a full year of depreciation expense on two acute care facilities opened during the third and fourth quarters of 1997.

Interest expense remained unchanged at $27 million in 1999 and 1998. Interest expense increased $8 million to $27 million in 1998 as compared to $19 million in 1997 due primarily to increased borrowings used to finance the 1998 purchase of the three acute care hospitals located in Puerto Rico.

During the fourth quarter of 1999, the Company decided to close/sell one of its specialized women's health centers and as a result, the Company recorded a $5.3 million nonrecurring charge to reduce the carrying value of the facility to its estimated realizable value of approximately $9 million, based on an independent appraisal. The Company is involved in litigation with respect to this facility and may incur additional charges in the event it is unable to close or sell the facility for a significant period of time or suffers an unfavorable outcome from this litigation.

The effective tax rate was 36.7% in 1999, 35.3% in 1998 and 36.5% in 1997. The increase in the effective tax rate during 1999 as compared to 1998 was due to a reduction in the tax benefits related to the financing of employee benefit programs. The reduction in the effective tax rate during 1998 as compared to 1997 was due to a reduction in the effective state income tax rate and benefits related to wage tax credits.

The Company did not experience any significant Year 2000 computer related issues as a result of the turn of the century.

General Trends

A significant portion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 46%, 46% and 50% of the Company's net patient revenues during 1999, 1998 and 1997, respectively. The Medicare program reimburses the Company's hospitals primarily based on established rates by a diagnosis related group ("DRG") for acute care hospitals and by cost based formula for behavioral health facilities. Historically, rates paid under Medicare's prospective payment system ("PPS") for inpatient services have increased, however, these increases have been less than cost increases. Pursuant to the terms of BBA-97, there were no increases in the rates paid to hospitals for inpatient care through September 30, 1998 and reimbursement for bad debt expense and capital costs as well as other items have been reduced. Inpatient operating payment rates increased 0.5% for the period of October 1, 1998 through September 30, 1999, however, the modest rate increase was less than inflation and was more than offset by the negative impact of converting reimbursement on skilled nursing facility patients from a cost based reimbursement to a prospective payment system and from lower DRG payments on certain patient transfers mandated by BBA-97. Inpatient operating payment rates were increased 1.1% for the period of October 1, 1999 through September 30, 2000, however, the modest increase was less than inflation and is expected to be more than offset by the negative impact of increasing the qualification threshold for additional payments for treating costly inpatient cases (outliers). Payments for Medicare outpatient services historically have been paid based on costs, subject to certain adjustments and limits. BBA-97 requires that payment for those services be converted to prospective payment systems (PPS). The Health Care Financing Administration's current plan is to implement PPS for outpatients by July 1, 2000, however, there is a possibility that outpatient PPS may be delayed until January, 2001. Since final provisions of the outpatient Medicare PPS are not yet available, the Company can not completely estimate the resulting impact on its future results of operations.

The healthcare industry is subject to numerous laws and regulations which include, among other things, matters such as government healthcare participation requirements, various licensure and accreditations, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required to repay amounts received from government for previously billed patient services. While management of the Company believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Company will not be subjected to governmental inquiries or actions.

In Texas, a law has been passed which mandates that the state senate apply for a waiver from current Medicaid regulations to allow the state to require that certain Medicaid participants be serviced through managed care providers. The Company is unable to predict whether Texas will be granted such a waiver or the effect on the Company's business of such a waiver. Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, four of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Beginning in the third quarter of 1999, as a result of reductions stemming from BBA-97 and program redesigns by the two states, the Company's Medicaid disproportionate share reimbursements have been reduced by approximately $11 million annually on a prospective basis. Included in the Company's financial results was an aggregate of $37.0 million in 1999, $36.5 million in 1998 and $33.4 million in 1997 received pursuant to the terms of these programs. Failure to renew these programs, which are scheduled to terminate in the third quarter of 2000, or further reductions in reimbursements, could have a material adverse effect on the Company's future results of operations.

In addition to the Medicare and Medicaid programs, other payors, including managed care companies, continue to actively negotiate the amounts they will pay for services performed. Approximately 32% in 1999,

27% in 1998 and 19% in 1997 of the Company's net patient revenues were generated from managed care companies, which includes health maintenance organizations and preferred provider organizations. In general, the Company expects the percentage of its business from managed care programs to continue to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of the Company's facilities vary among the markets in which the Company operates.

Health Insurance Portability and Accountability Act of 1996

Regulations related to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") are expected to impact the Company and others in the healthcare industry by:

(i) Establishing standardized code sets for financial and clinical electronic data interchange ("EDI") transactions to enable more efficient flow of information. Currently there is no common standard for the transfer of information between the constituents in healthcare and therefore providers have had to conform to each standard utilized by every party with which they interact. The goal of HIPAA is to create one common national standard for EDI and once the HIPAA regulation takes effect, payors will be required to accept the national standard employed by providers.

(ii) Mandating the adoption of security standards to preserve the confidentiality of health information that identifies individuals. Currently there is no recognized healthcare standard that includes all the necessary components to protect the data integrity and confidentiality of a patient's personal health record. The Department of Health and Human Services, with assistance from standards development organizations and business interests, is currently developing the standard.

(iii) Creating unique identifiers for the four constituents in healthcare: payors, providers, patients and employers. HIPAA will mandate the need for the unique identifiers for healthcare providers in an effort to ease the administrative challenge of maintaining and transmitting clinical data across disparate episodes of patient care.

The Secretary of the Department of Health and Human Services is expected to issue new HIPAA regulations (expected to be released in May, 2000) related to administrative simplification with the requirement that these guidelines be implemented within two years of their release. Non-compliance may result in fines, loss of accreditation and/or threat of civil litigation. This HIPAA assessment is based on information currently available to the Company and the Company has begun preliminary planning for implementation of the necessary changes required pursuant to the terms of HIPAA. However, the Company can not currently estimate the implementation cost of the HIPAA related modifications and consequently can give no assurances that issues related to HIPAA will not have a material adverse effect on the Company's financial condition or results of operations.

Market Risks Associated with Financial Instruments

The Company's interest expense is sensitive to changes in the general level of domestic interest rates. To mitigate the impact of fluctuations in domestic interest rates, a portion of the Company's debt is fixed rate accomplished by either borrowing on a long-term basis at fixed rates or by entering into interest rate swap transactions. The interest rate swap agreements are contracts that require the Company to pay a fixed and receive a floating interest rate over the life of the agreements. The floating-rates are based on LIBOR and the fixed-rate is determined at the time the swap agreement was consummated. The interest rate swap agreements do not constitute positions independent of the underlying exposures. The Company does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage features. Certain swap agreements allow the counterparty a one-time option to cancel the agreement one year prior to maturity. The Company is exposed to credit losses in the event of nonperformance by the counterparties to its financial instruments. The counterparties are creditworthy financial institutions, rated AA or better by Moody's Investor Services and the Company anticipates that the counterparties will be able to fully satisfy their obligations under the contracts. For the years ended December 31, 1999 and 1998, the Company received weighted average rates of 5.5% and 5.7%, respectively, and paid a weighted average rate on its interest rate swap agreements of 5.8% in both years. At December 31, 1997, the Company had no active interest rate swap agreements.

The table below presents information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including long-term debt and interest rate swaps as of December 31, 1999. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by contractual maturity dates. For interest rate swap agreements, the table presents notional amounts by maturity date and weighted average interest rates based on rates in effect at December 31, 1999. The fair values of long-term debt and interest rate swaps were determined based on market prices quoted at December 31, 1999, for the same or similar debt issues.

	Maturity Date, Fiscal Year Ending December 31						
	2000	2001	2002	2003	2004	There-after	Total
	(Dollars in thousands)						
Long-term debt:							
Fixed rate--Fair value	$3,507	$658	$1,610	$187	$200	$132,244	$138,406
Fixed rate--Carrying value	$3,507	$658	$1,610	$187	$200	$134,458	$140,620
Average interest rates	7.59%	7.47%	9.15%	6.68%	6.68%	9.20%	
Variable rate long-term debt	0	0	$263,890	0	0	$ 18,200	$282,090
Interest rate swaps:							
Pay fixed/receive variable notional amounts	$50,000					$ 75,000	$125,000
Average pay rate	5.78%					6.75%	
Average receive rate	3 month LIBOR					6 month LIBOR	

Effects of Inflation and Seasonality

The healthcare industry is very labor intensive and salaries and benefits are subject to inflationary pressures as are rising supply costs which tend to escalate as vendors pass on the rising costs through price increases. Inflation has not had a material impact on the results of operations over the last three years. Although the Company cannot predict its ability to continue to cover future cost increases, management believes that through adherence to cost containment policies, labor management and reasonable price increases, the effects of inflation on future operating margins should be manageable. However, the Company's ability to pass on these increased costs associated with providing healthcare to Medicare and Medicaid patients is limited due to various federal, state and local laws which have been enacted that, in certain cases, limit the Company's ability to increase prices. Under the terms of BBA-97, there were no price increases in the rates paid to hospitals through September 30, 1998 and the modest price increases that were effective since October 1, 1998 have been more than offset by the negative impact of other BBA-97 related changes. In addition, as a result of increasing regulatory and competitive pressures and a continuing industry wide shift of patients into managed care plans, the Company's ability to maintain margins through price increases to non-Medicare patients is limited.

The Company's business is seasonal, with higher patient volumes and net patient service revenue in the first and fourth quarters of the Company's year. This seasonality occurs because, generally, more people become ill during the winter months, which results in significant increases in the number of patients treated in the Company's hospitals during those months.

Liquidity and Capital Resources

Net cash provided by operating activities was $176 million in 1999, $152 million in 1998 and $174 million in 1997. The $24 million increase in 1999 as compared to 1998 was primarily attributable to: (i) a $41 million favorable change in other working capital accounts caused primarily by favorable timing of accounts payable disbursements in 1999 as compared to 1998 and a $17 million decrease in the pre-funding of employee benefit programs, and; (ii) an $18 million unfavorable change in accounts receivable, partially resulting from delays in payments by managed care payors.

The $22 million net decrease in 1998 as compared to 1997 was primarily attributable to: (i) a $37 million favorable increase in net income plus the addback of depreciation and amortization expense; (ii) an unfavorable $18 million increase in income tax payments, net of refunds; (iii) an unfavorable $14 million change in accrued insurance expense less commercial premiums paid and payments made in settlement of self-insurance claims; (iv) an unfavorable $22 million increase in other working capital accounts; (v) an $8 million increase in payments made to the Company's non-contributory retirement plan, and; (vi) $3 million of other net favorable changes. The unfavorable change in accrued insurance less commercial premiums paid and payments made in settlement of self-insurance claims was due to the January, 1998 purchase of commercial insurance policies for general and professional liability coverage at most of the Company's subsidiaries. These policies provide for coverage in excess of $1 million per occurrence, with an average annual aggregate of $6 million through 2001. Prior to January 1998, most of the Company's subsidiaries were self-insured for professional and general liability claims up to $5 million per occurrence, with excess coverage maintained up to $100 million with major insurance carriers. Other working capital accounts as of December 31, 1998 (net of effects from acquisitions) increased $9 million as compared to December 31, 1997 while other working capital accounts as of December 31, 1997 decreased $13 million as compared to December 31, 1996. These changes in other working capital accounts were caused primarily by the timing of payments of accounts payable and other accrued expenses.

During the second quarter of 1999, the Company acquired three behavioral health facilities located in Illinois, Indiana and New Jersey, for a combined purchase price of $27 million in cash plus contingent consideration of up to $3 million. Also during the second quarter of 1999, the Company acquired the operations of Doctor's Hospital of Laredo in exchange for the assets and operations of its Victoria Regional Medical Center. In connection with this transaction, the Company also spent approximately $5 million to purchase additional land in Laredo, Texas on which it expects to construct a replacement hospital scheduled to be completed in 2001.

During 1999, the Company received total cash proceeds of approximately $16 million generated primarily from the sale of the real property of two medical office buildings ($14 million). The net gain/loss resulting from these transactions did not have a material impact on the 1999 results of operations.

During the third quarter of 1998, the Company's Board of Directors approved a stock repurchase program authorizing the Company to purchase up to two million shares or approximately 6% of its outstanding Class B Common Stock. This initial repurchase program was completed during the third quarter of 1999. During the third and fourth quarters of 1999, the Board of Directors approved plans for the repurchase of up to an additional four million shares of the Company's Class B Common Stock. Pursuant to the stock repurchase programs, the Company, from time to time and as conditions allow, may purchase a total of up to six million shares on the open market at prevailing market prices or in negotiated transactions off the market. Pursuant to the terms of these programs, the Company repurchased 580,500 shares at average repurchase price of $42.90 per share ($24.9 million in the aggregate) during 1998 and 2,028,379 shares at an average repurchase price of $35.10 ($71.2 million in the aggregate) during 1999. Since inception of the repurchase program in 1998 through December 31, 1999, the Company repurchased a total of 2,608,879 shares at an average repurchase price of $36.85 per share ($96.1 million in the aggregate).

In conjunction with the Company's stock repurchase program during 1998 and 1999, the Company sold European-style put options which entitle the holder to sell shares of the Company's Class B Common Stock to the Company at a specified price. The Company also purchased European-style call options which entitles the Company to purchase shares of the Company's Class B Common Stock at a specified price. As of December 31, 1999 put options totaling 1,458,500 shares, with an average strike price of $28.47, were outstanding with various expiration dates in the second and third quarters of 2000. As of December 31, 1999 call options totaling 1,034,000 shares, with an average strike price of $28.47 per share, were outstanding with various expiration dates in the second and third quarters of 2000.

During the first quarter of 1998, the Company acquired three acute care hospitals located in Puerto Rico for a combined purchase price of $187 million. The hospitals acquired are located in Bayamon (430-beds), Rio Piedras (160-beds) and Fajardo (180-beds). These acquisitions were financed with funds borrowed under the

Company's revolving credit facility. Also during the first quarter of 1998, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center, a 417-bed acute care facility, and its newly-constructed Summerlin Hospital Medical Center, a 148-bed acute care facility in exchange for a 72.5% interest in a series of newly-formed limited liability companies ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital, a 241-bed acute care facility and $11 million of net cash. The assets and liabilities contributed by the Company were recorded by the LLCs at carryover value. The LLCs applied purchase accounting to the assets and liabilities provided by Quorum and recorded them at fair market value. As a result of this partial sale transaction, the Company recorded a pre-tax gain of $55.1 million ($34.7 million after-tax) that was recorded as a capital contribution to the Company. This merger did not have a material impact on the 1998 results of operations. Also during 1998, the Company spent $2 million to purchase the property of a radiation therapy center located in California.

During 1997 the Company acquired an 80% interest in a partnership which owns and operates The George Washington University Hospital, a 501-bed acute care facility located in Washington, DC. The George Washington University ("GWU") holds a 20% interest in the partnership. In connection with this acquisition, the Company provided an immediate commitment of $80 million, consisting of $40 million in cash which has been invested and is restricted for construction (balance of $41.5 million as of December 31, 1999) and a $40 million surety bond. The Company and GWU are planning to build a newly constructed 371-bed acute care facility which is scheduled to be completed in 2002. The total cost of this new facility is estimated to be approximately $96 million, of which the Company intends to provide a total of $83 million (including the $80 million commitment mentioned above) with the remainder being provided by GWU and the interest earnings on the $40 million of funds restricted for construction. During the third and fourth quarters of 1997, the Company completed construction and opened the following facilities: (i) a 129-bed acute care facility located in Edinburg, Texas; (ii) a medical complex located in Summerlin, Nevada including a 148-bed acute care facility, and; (iii) two newly constructed specialized women's health centers located in Austin, Texas and Lakeside, Oklahoma of which subsidiaries of the Company owns interests in limited liability companies ("LLCs") which own and operate the facilities. During 1997, the LLC which operates the specialized women's health center in Lakeside, Oklahoma sold the real and personal property of this facility which was then leased-back pursuant to the terms of a 20-year lease. The Company spent $71 million during the year (net of $8 million of proceeds received for sale-leaseback of the specialized women's health center located in Oklahoma and $4 million received for sale of a minority interest in the specialized women's health center located in Austin, Texas) for completion of these newly constructed facilities. Also during the year, the Company spent an additional $11 million to acquire various behavioral healthcare related businesses.

Capital expenditures, net of proceeds received from sale or disposition of assets were $68 million in 1999 (excluding $16 million of cash proceeds generated primarily from the sale of two medical office buildings as mentioned above), $97 million in 1998 (excluding $11 million of net cash contributed by Quorum as mentioned above) and $129 million in 1997 (including $71 million spent on the newly constructed facilities mentioned above). Capital expenditures for capital equipment, renovations and new projects at existing hospitals and completion of major construction projects in progress at December 31, 1999 are expected to total approximately $169 million in 2000. The Company believes that its capital expenditure program is adequate to expand, improve and equip its existing hospitals.

Total debt as a percentage of total capitalization was 40% at December 31, 1999 and 1998 and 35% at December 31, 1997. The increase during 1998 as compared to 1997 was due primarily to the 1998 purchase transactions mentioned above, which were financed with borrowings under the Company's revolving credit facility.

As of December 31, 1999, the Company had $222 million of unused borrowing capacity under the terms of its $400 million revolving credit agreement which matures in July 2002 and provides for interest at the Company's option at the prime rate, certificate of deposit plus 3/8% to 5/8%, Euro-dollar plus 1/4% to 1/2% or a

money market rate. A facility fee ranging from 1/8% to 3/8% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio.

As of December 31, 1999, the Company had $10 million of unused borrowing capacity under the terms of its $100 million, annually renewable, commercial paper program. A large portion of the Company's accounts receivable are pledged as collateral to secure this program. This annually renewable program, which began in 1993, is scheduled to expire or be renewed on October 30th of each year.

As of December 31, 1999 and 1998, the Company had two interest rate swap agreements that fixed the rate of interest on a notional principal amount of $50 million for a period of three years. These interest rate swaps expired on January 4, 2000. The average fixed rate obtained through these interest rate swaps was 6.20% including the Company's current borrowing spread of .425%. The Company is also a party to three forward starting interest rate swaps to fix the rate of interest on a total notional principal amount of $75 million. The starting date on the interest rate swaps is August, 2000 and they mature in August, 2010. The average fixed rate of the three forward starting interest rate swaps, including the Company's current borrowing spread of .425% is 7.2%. The effective interest rate on the Company's revolving credit, demand notes and commercial paper program, including the interest rate swap expense incurred on existing and now expired interest rate swaps, was 6.2%, 6.4% and 6.8% during 1999, 1998 and 1997, respectively. Additional interest expense recorded as a result of the Company's hedging activity was $202,000, $75,000 and $0 in 1999, 1998 and 1997, respectively. The Company is exposed to credit loss in the event of non-performance by the counterparty to the interest rate swap agreements. All of the counterparties are creditworthy financial institutions rated AA or better by Moody's Investor Service and the Company does not anticipate non-performance. The value of the interest rate swap obligations at December 31, 1999 was approximately $2.9 million.

The Company expects to finance all capital expenditures and acquisitions with internally generated funds and borrowed funds. Additional borrowed funds may be obtained either through refinancing the existing revolving credit agreement, the commercial paper facility or the issuance of long-term securities.

ITEM 8. Financial Statements and Supplementary Data

The Company's Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Common Stockholders' Equity, and Consolidated Statements of Cash Flows, together with the report of Arthur Andersen LLP, independent public accountants, are included elsewhere herein. Reference is made to the "Index to Financial Statements and Financial Statement Schedule."

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

There is hereby incorporated by reference the information to appear under the caption "Election of Directors" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1999. See also "Executive Officers of the Registrant" appearing in Part I hereof.

ITEM 11. Executive Compensation

There is hereby incorporated by reference the information to appear under the caption "Executive Compensation" in the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 1999.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

There is hereby incorporated by reference the information to appear under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1999.

ITEM 13. Certain Relationships and Related Transactions

There is hereby incorporated by reference the information to appear under the caption "Certain Relationships and Related Transactions" in the Company's Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 1999.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. and 2. Financial Statements and Financial Statement Schedule.

See Index to Financial Statements and Financial Statement Schedule on page 30.

(b) Reports on Form 8-K

None.

(c) Exhibits

3.1 Company's Restated Certificate of Incorporation, and Amendments thereto, previously filed as Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, are incorporated herein by reference.

3.2 Bylaws of Registrant as amended, previously filed as Exhibit 3.2 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1987, is incorporated herein by reference.

4.1 Authorizing Resolution adopted by the Pricing Committee of Universal Health Services, Inc. on August 1, 1995, related to $135 million principal amount of 8 3/4% Senior Notes due 2005, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, is incorporated herein by reference.

4.2 Indenture dated as of July 15, 1995, between Universal Health Services, Inc. and PNC Bank, National Association, Trustee, previously filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, is incorporated herein by reference.

10.1 Restated Employment Agreement, dated as of July 14, 1992, by and between Registrant and Alan B. Miller, previously filed as Exhibit 10.3 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.2 Form of Employee Stock Purchase Agreement for Restricted Stock Grants, previously filed as Exhibit 10.12 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1985, is incorporated herein by reference.

10.3 Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc., previously filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.4 Agreement, effective January 1, 2000, to renew Advisory Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and UHS of Delaware, Inc.

10.5 Form of Leases, including Form of Master Lease Document for Leases, between certain subsidiaries of the Registrant and Universal Health Realty Income Trust, filed as Exhibit 10.3 to Amendment No. 3 of the Registration Statement on Form S-11 and Form S-2 of Registrant and Universal Health Realty Income Trust (Registration No. 33-7872), is incorporated herein by reference.

10.6 Share Option Agreement, dated as of December 24, 1986, between Universal Health Realty Income Trust and Registrant, previously filed as Exhibit 10.4 to Registrant's Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.7 Corporate Guaranty of Obligations of Subsidiaries Pursuant to Leases and Contract of Acquisition, dated December 24, 1986, issued by Registrant in favor of Universal Health Realty Income Trust, previously filed as Exhibit 10.5 to Registrant's Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.8 1990 Employees' Restricted Stock Purchase Plan, previously filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1990, is incorporated herein by reference.

10.9 1992 Stock Bonus Plan, previously filed as Exhibit 10.25 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, is incorporated herein by reference.

10.10 Sale and Servicing Agreement dated as of November 16, 1993 between Certain Hospitals and UHS Receivables Corp., previously filed as Exhibit 10.16 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.11 Amendment No. 2 dated as of August 31, 1998, to Sale and Servicing Agreements dated as of various dates between each hospital company and UHS Receivables Corp., previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, is incorporated herein by reference.

10.12 Servicing Agreement dated as of November 16, 1993, among UHS Receivables Corp., UHS of Delaware, Inc. and Continental Bank, National Association, previously filed as Exhibit 10.17 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.13 Pooling Agreement dated as of November 16, 1993, among UHS Receivables Corp., Sheffield Receivables Corporation and Continental Bank, National Association, previously filed as Exhibit 10.18 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.14 Amendment No. 1 to the Pooling Agreement dated as of September 30, 1994, among UHS Receivables Corp., Sheffield Receivables Corporation and Bank of America Illinois (as successor to Continental Bank N.A.) as Trustee, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, is incorporated herein by reference.

10.15 Amendment No. 2, dated as of April 17, 1997 to Pooling Agreement dated as of November 16, 1993, among UHS Receivables Corp., a Delaware corporation, Sheffield Receivables Corporation, a Delaware corporation, and First Bank National Association, a national banking association, as trustee, previously filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 30, 1997, is incorporated herein by reference.

10.16 Form of Amendment No. 3, dated as of August 31, 1998, to Pooling Agreement dated as of November 16, 1993, among UHS Receivables Corp., Sheffield Receivables Corporation and U.S. Bank National Association (successor to First Bank National Association and Continental Bank, National Association) previously filed as Exhibit 10.17 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998 is incorporated herein by reference.

10.17 Agreement, dated as of August 31, 1998, by and among each hospital company signatory hereto, UHS Receivables Corp., a Delaware Corporation, Sheffield Receivables Corporation and U.S. Bank National

Association, as Trustee, previously filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, is incorporated herein by reference.

10.18 Guarantee dated as of November 16, 1993, by Universal Health Services, Inc. in favor of UHS Receivables Corp., previously filed as Exhibit 10.19 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.19 Amendment No. 1 to the 1992 Stock Bonus Plan, previously filed as Exhibit 10.21 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.20 1994 Executive Incentive Plan, previously filed as Exhibit 10.22 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.21 Credit Agreement, dated as of July 8, 1997 among Universal Health Services, Inc., various banks and Morgan Guaranty Trust Company of New York, as agent, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, is incorporated herein by reference.

10.22 Amendment No. 1, dated as of June 29, 1998, to the Credit Agreement dated as of July 8, 1997, among Universal Health Services, Inc., the Banks party thereto and Morgan Guaranty Trust Company of New York, as the Agent, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, is incorporated herein by reference.

10.23 Amended and Restated 1989 Non-Employee Director Stock Option Plan, previously filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, is incorporated herein by reference.

10.24 Asset Purchase Agreement dated as of February 6, 1996, among Amarillo Hospital District, UHS of Amarillo, Inc. and Universal Health Services, Inc., previously filed as Exhibit 10.28 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, is incorporated herein by reference.

10.25 1992 Stock Option Plan, As Amended, previously filed as Exhibit 10.32 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by reference.

10.26 Stock Purchase Plan, previously filed as Exhibit 10.27 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, is incorporated herein by reference.

10.27 Asset Purchase Agreement dated as of April 19, 1996 by and among UHS of PENNSYLVANIA, INC., a Pennsylvania corporation, and subsidiary of UNIVERSAL HEALTH SERVICES, INC., a Delaware corporation, UHS, UHS OF DELAWARE, INC., a Delaware corporation and subsidiary of UHS, WELLINGTON REGIONAL MEDICAL CENTER, INC., a Florida corporation and subsidiary of UHS, FIRST HOSPITAL CORPORATION, a Virginia corporation, FHC MANAGEMENT SERVICES, INC., a Virginia corporation, HEALTH SERVICES MANAGEMENT, INC., a Pennsylvania corporation, HORSHAM CLINIC, INC., d/b/a THE HORSHAM CLINIC, a Pennsylvania corporation, CENTRE VALLEY MANAGEMENT, INC. d/b/a THE MEADOWS PSYCHIATRIC CENTER, a Pennsylvania corporation, CLARION FHC, INC. d/b/a CLARION PSYCHIATRIC CENTER, a Pennsylvania corporation, WESTCARE, INC., d/b/a ROXBURY, a Virginia corporation and FIRST HOSPITAL CORPORATION OF FLORIDA, a Florida corporation, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, is incorporated herein by reference.

10.28 $36.5 million Term Note dated May 3, 1996 between Universal Health Services, Inc., a Delaware corporation, and First Hospital Corporation, Horsham Clinic, Inc. d/b/a Horsham Clinic, Centre Valley Management, Inc. d/b/a The Meadows Psychiatric Center, Clarion FHC, d/b/a/ Clarion Psychiatric Center, Westcare, Inc. d/b/a Roxbury, FHC Management Services, Inc., Health Services Management, Inc., First

Hospital Corporation of Florida, previously filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, is incorporated herein by reference.

10.29 Agreement of Limited Partnership of District Hospital Partners, L.P. (a District of Columbia limited partnership) by and among UHS of D.C., Inc. and The George Washington University, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarters ended March 30, 1997, and June 30, 1997, is incorporated herein by reference.

10.30 Contribution Agreement between The George Washington University (a congressionally chartered institution in the District of Columbia) and District Hospital Partners, L.P. (a District of Columbia limited partnership), previously filed as Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, is incorporated herein by reference.

10.31 Deferred Compensation Plan for Universal Health Services Board of Directors, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, is incorporated herein by reference.

10.32 Stock Purchase Agreement dated as of December 15, 1997, by and among the Stockholders of Hospital San Pablo, Inc. and Universal Health Services, Inc., and UHS of Puerto Rico, Inc., previously filed as Exhibit 10.29 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by reference.

10.33 Valley/Desert Contribution Agreement dated January 30, 1998, by and among Valley Hospital Medical Center, Inc. and NC-DSH, Inc. previously filed as Exhibit 10.30 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by reference.

10.34 Summerlin Contribution Agreement dated January 30, 1998, by and among Summerlin Hospital Medical Center, L.P. and NC-DSH, Inc., previously filed as Exhibit 10.31 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by reference.

10.35 Supplemental Indenture Dated as of January 1, 1998 to Indenture Dated as of July 15, 1995 between Universal Health Services, Inc. and PNC BANK, National Association, Trustee, previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998, is incorporated herein by reference.

10.36 1992 Corporate Ownership Program, as Amended, previously filed as Exhibit 10.9 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998, is incorporated herein by reference.

10.37 Amended and Restated 1992 Stock Option Plan.

22\. Subsidiaries of Registrant.

24\. Consent of Independent Public Accountants.

27\. Financial Data Schedule.

Exhibits, other than those incorporated by reference, have been included in copies of this Report filed with the Securities and Exchange Commission. Stockholders of the Company will be provided with copies of those exhibits upon written request to the Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Universal Health Services, Inc.

By: /s/Alan B. Miller
Alan B. Miller
President

March 10, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/Alan B. Miller Alan B. Miller	Chairman of the Board, President and Director (Principal Executive Officer)	March 10, 2000
/s/Sidney Miller Sidney Miller	Director	March 15, 2000
/s/Anthony Pantaleoni Anthony Pantaleoni	Director	March 15, 2000
/s/Robert H. Hotz Robert H. Hotz	Director	March 15, 2000
/s/John H. Herrell John H. Herrell	Director	March 15, 2000
/s/John F. Williams, Jr., M.D. John F. Williams, Jr., M.D.	Director	March 15, 2000
/s/Leatrice Ducat Leatrice Ducat	Director	March 15, 2000
/s/Joseph Sebastianelli Joseph Sebastianelli	Director	March 15, 2000
/s/Kirk E. Gorman Kirk E. Gorman	Senior Vice President and Chief Financial Officer	March 10, 2000
/s/Steve Filton Steve Filton	Vice President, Controller, Principal Accounting Officer and Secretary	March 10, 2000

UNIVERSAL HEALTH SERVICES, INC.

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AND FINANCIAL STATEMENT SCHEDULE

(ITEM 14(a))

Consolidated Financial Statements:

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Universal Health Services, Inc.:

We have audited the accompanying consolidated balance sheets of Universal Health Services, Inc. (Delaware corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Health Services, Inc. and subsidiaries as of December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the Index to Financial Statements and Financial Statement Schedule is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Philadelphia, Pennsylvania
February 11, 2000

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	1999	1998	1997
	(In thousands, except per share data)		
Net revenues	$2,042,380	$1,874,487	$1,442,677
Operating charges			
Operating expenses	828,752	752,651	574,837
Salaries and wages	728,921	671,140	514,407
Provision for doubtful accounts	166,139	139,526	108,790
Depreciation & amortization	108,333	105,442	80,686
Lease and rental expense	49,029	46,516	38,401
Interest expense, net	26,872	27,117	19,382
Nonrecurring charges	5,300	--	--
Total operating charges	1,913,346	1,742,392	1,336,503
Income before minority interests and income taxes	129,034	132,095	106,174
Minority interests in earnings of consolidated entities	6,251	9,083	251
Income before income taxes	122,783	123,012	105,923
Provision for income taxes	45,008	43,454	38,647
Net income	$ 77,775	$ 79,558	$ 67,276
Earnings per common share--basic	$ 2.48	$ 2.45	$ 2.08
Earnings per common & common share equivalents--diluted	$ 2.43	$ 2.39	$ 2.03
Weighted average number of common shares--basic	31,417	32,511	32,321
Weighted average number of common share equivalents	573	782	777
Weighted average number of common shares and equivalents--diluted	31,990	33,293	33,098

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1999	December 31, 1998
	(Dollar amounts in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 6,181	$ 1,260
Accounts receivable, net	307,294	256,354
Supplies	41,173	38,842
Deferred income taxes	26,768	10,838
Other current assets	21,833	12,321
Total current assets	403,249	319,615
Property and Equipment		
Land	94,891	96,331
Buildings and improvements	637,822	647,108
Equipment	381,934	364,978
Property under capital lease	25,605	25,579
	1,140,252	1,133,996
Less accumulated depreciation	437,837	396,530
	702,415	737,466
Funds restricted for construction	41,463	43,413
Construction-in-progress	33,175	27,943
	777,053	808,822
Other assets		
Excess of cost over fair value of net assets acquired	276,031	279,141
Deferred charges	10,870	13,533
Other	30,770	26,984
	317,671	319,658
	$1,497,973	$1,448,095
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 3,506	$ 4,082
Accounts payable	105,334	83,130
Accrued liabilities		
Compensation and related benefits	51,759	29,224
Interest	5,984	6,141
Taxes other than income	11,015	9,858
Other	39,602	37,365
Federal and state taxes	--	253
Total current liabilities	217,200	170,053
Other Noncurrent Liabilities	73,705	80,172
Minority Interest	115,635	129,423
Long-Term Debt	419,203	418,188
Deferred Income Taxes	30,619	23,252
Commitments and Contingencies		
Common Stockholders' Equity		
Class A Common Stock, voting, $.01 par value; authorized 12,000,000 shares; issued and outstanding 2,030,566 shares in 1999 and 2,057,929 in 1998	20	21
Class B Common Stock, limited voting, $.01 par value; authorized 75,000,000 shares; issued and outstanding 28,392,100 shares in 1999 and 29,901,218 in 1998	284	299
Class C Common Stock, voting, $.01 par value; authorized 1,200,000 shares; issued and outstanding 204,593 shares in 1999 and 207,230 in 1998	2	2
Class D Common Stock, limited voting, $.01 par value; authorized 5,000,000 shares; issued and outstanding 24,857 shares in 1999 and 28,788 in 1998	--	--
Capital in excess of par value, net of deferred compensation of $116 in 1999 and $185 in 1998	158,345	221,500
Retained earnings	482,960	405,185
	641,611	627,007
	$1,497,973	$1,448,095

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The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

For the Years Ended December 31, 1999, 1998, and 1997

(Amounts in thousands)

	Class A Common	Class B Common	Class C Common	Class D Common	Capital in Excess of Par Value	Retained Earnings	Total
Balance January 1, 1997	$21	$298	$2	--	$194,308	$258,351	$452,980
Common Stock Issued	--	3	--	--	6,141	--	6,144
Amortization of deferred compensation	--	--	--	--	286	--	286
Cancellation of stock grant	--	--	--	--	(79)	--	(79)
Net income	--	--	--	--	--	67,276	67,276
Balance January 1, 1998	21	301	2	--	200,656	325,627	526,607
Common Stock Issued	--	4	--	--	10,791	--	10,795
Repurchased	--	(6)	--	--	(24,900)	--	(24,906)
Amortization of deferred compensation	--	--	--	--	216	--	216
After-tax gain on partial sale of subsidiary	--	--	--	--	34,737	--	34,737
Net income	--	--	--	--	--	79,558	79,558
Balance January 1, 1999	21	299	2	--	221,500	405,185	627,007
Common Stock Issued	(1)	5	--	--	7,956	--	7,960
Repurchased	--	(20)	--	--	(71,205)	--	(71,225)
Amortization of deferred compensation	--	--	--	--	94	--	94
Net income	--	--	--	--	--	77,775	77,775
Balance December 31, 1999	$20	$284	$2	--	$158,345	$482,960	$641,611

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	1999	1998	1997
	(Amounts in thousands)		
Cash Flows from Operating Activities:			
Net income	$ 77,775	$ 79,558	$ 67,276
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	108,333	105,442	80,686
Minority interests in earnings of consolidated entities	6,251	9,083	251
Other non-cash charges	5,300	--	--
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	(37,958)	(20,060)	(14,434)
Accrued interest	(157)	1,459	(217)
Accrued and deferred income taxes	(3,370)	3,541	16,241
Other working capital accounts	32,371	(8,327)	13,315
Other assets and deferred charges	(5,775)	(6,220)	334
Other	2,957	(2,837)	6,947
Accrued insurance expense, net of commercial premiums paid	7,485	8,933	20,003
Payments made in settlement of self-insurance claims	(17,655)	(18,888)	(16,232)
Net cash provided by operating activities	175,557	151,684	174,170
Cash Flows from Investing Activities:			
Property and equipment additions	(67,576)	(96,808)	(129,199)
Acquisition of businesses	(31,588)	(189,332)	(10,525)
Proceeds received from merger, sale or disposition of assets	16,358	16,404	15,230
Funds restricted for construction related to acquisition of business	--	--	(41,031)
Net cash used in investing activities	(82,806)	(269,736)	(165,525)
Cash Flows from Financing Activities:			
Additional borrowings	15,150	152,199	25,000
Reduction of long-term debt	(15,830)	(8,050)	(34,510)
Distributions to minority partners	(18,439)	(1,751)	(671)
Issuance of common stock	2,514	1,488	1,580
Repurchase of common shares	(71,225)	(24,906)	--
Net cash provided by (used in) financing activities	(87,830)	118,980	(8,601)
Increase in Cash and Cash Equivalents	4,921	928	44
Cash and Cash Equivalents, Beginning of Period	1,260	332	288
Cash and Cash Equivalents, End of Period	$ 6,181	$ 1,260	$ 332
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 27,029	$ 25,658	$ 19,599
Income taxes paid, net of refunds	$ 48,833	$ 39,913	$ 22,265
Supplemental Disclosures of Non-cash Investing and Financing Activities: See Notes 2 and 6			

The accompanying notes are an integral part of these consolidated financial statements.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Universal Health Services, Inc. (the "Company"), its majority-owned subsidiaries and partnerships controlled by the Company or its subsidiaries as the managing general partner. All significant intercompany accounts and transactions have been eliminated. The more significant accounting policies follow:

Nature of Operations: The principal business of the Company is owning and operating, through its subsidiaries, acute care hospitals, behavioral health centers, ambulatory surgery centers, radiation oncology centers and women's centers. At December 31, 1999, the Company operated 21 acute care hospitals, 23 behavioral health centers and 3 specialized women's health centers, in 17 states, the District of Columbia and Puerto Rico. The Company, as part of its Ambulatory Treatment Centers Division owns outright, or in partnership with physicians, and operates or manages 23 surgery and radiation oncology centers located in 12 states and the District of Columbia. As of December 31, 1999, the Company held majority interests in three separate partnerships/limited liability companies which own the property of, and manage, three radiation therapy centers located in Kentucky and California. Since the Company does not control the operations of these centers, the operating results of these centers are not included in the Company's consolidated financial statements.

Services provided by the Company's hospitals include general surgery, internal medicine, obstetrics, emergency room care, radiology, diagnostic care, coronary care, pediatric services and behavioral health services. The Company provides capital resources as well as a variety of management services to its facilities, including central purchasing, information services, finance and control systems, facilities planning, physician recruitment services, administrative personnel management, marketing and public relations.

Net revenues from the Company's acute care hospitals, ambulatory and outpatient treatment centers and women's center accounted for 86%, 87% and 85% of consolidated net revenues in 1999, 1998 and 1997, respectively.

Net Revenues: Net revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. These net revenues are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicare and Medicaid net revenues represented 46%, 46% and 50% of net patient revenues for the years 1999, 1998 and 1997, respectively. In addition, approximately 32% in 1999, 27% in 1998 and 19% in 1997 of the Company's net patient revenues were generated from managed care companies which includes health maintenance organizations and preferred provider organizations.

Concentration of Revenues: McAllen Medical Center contributed 10% and the three facilities operating in the Las Vegas market contributed on a combined basis 18% of the Company's 1999 consolidated net revenues.

Accounts Receivable: Accounts receivable are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, net of contractual allowances and net of allowance for doubtful accounts of $55.7 million and $60.5 million in 1999 and 1998, respectively.

Property and Equipment: Property and equipment are stated at cost. Expenditures for renewals and improvements are charged to the property accounts. Replacements, maintenance and repairs which do not improve or extend the life of the respective asset are expensed as incurred. The Company removes the cost and the related accumulated depreciation from the accounts for assets sold or retired and the resulting gains or losses are included in the results of operations. The Company capitalized $1.1 million of interest costs related to construction in progress in 1997. No interest was capitalized in 1999 and 1998.

Depreciation is provided on the straight-line method over the estimated useful lives of buildings and improvements (twenty to forty years) and equipment (three to fifteen years).

Other Assets: The excess of cost over fair value of net assets acquired in purchase transactions, net of accumulated amortization of $91.4 million in 1999 and $72.2 million in 1998, is amortized using the straight-line method over periods ranging from five to forty years. As of December 31, 1999, the weighted average amortization period is approximately eighteen years.

During 1994, the Company established an employee life insurance program covering approximately 2,200 employees. At December 31, 1999 and 1998, the cash surrender value of the policies ($20 million and $103 million, respectively) were recorded net of related loans ($20 million and $102 million, respectively) and is included in other assets.

Long-Lived Assets: It is the Company's policy to review the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows.

During the fourth quarter of 1999, the Company made a decision to close/sell one of its specialized women's centers and recorded a $5.3 million charge to reduce the carrying value of the facility to its estimated realizable value of approximately $9 million, based on an independent appraisal. The Company is involved in litigation with respect to this facility and may incur additional charges in the event it is unable to close or sell the facility for a significant period of time or suffers an unfavorable outcome from this litigation.

Income Taxes: The Company and its subsidiaries file consolidated federal tax returns. Deferred taxes are recognized for the amount of taxes payable or deductible in future years as a result of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements.

Other Noncurrent Liabilities: Other noncurrent liabilities include the long-term portion of the Company's professional and general liability, workers' compensation reserves and pension liability.

Minority Interest Liabilities: As of December 31, 1999 and 1998, the $115.6 million and $129.4 million minority interest balance consists primarily of a 27.5% outside ownership interest in three acute care facilities located in Las Vegas, Nevada and a 20% outside ownership interest in an acute care facility located in Washington, DC.

Earnings per Share: Basic earnings per share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on the weighted average number of common shares outstanding during the year adjusted to give effect to common stock equivalents.

Stock-Based Compensation: SFAS No. 123 encourages a fair value based method of accounting for employee stock options and similar equity instruments, which generally would result in the recording of additional compensation expense in the Company's financial statements. The Statement also allows the Company to continue to account for stock-based employee compensation using the intrinsic value for equity instruments using APB Opinion No. 25. The Company has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for the stock option plans in the accompanying financial statements.

Statement of Cash Flows: For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. Interest expense in the consolidated statements of income is net of interest income of $2.6 million in 1999, $2.6 million in 1998, and $1.3 million in 1997.

Interest Rate Swap Agreements: In managing interest rate exposure, the Company at times enters into interest rate swap agreements. When interest rates change, the differential to be paid or received is accrued as interest expense and is recognized over the life of the agreements. Gains and losses on terminated interest rate swap agreements are amortized into income over the remaining life of the underlying debt obligation or the remaining life of the original swap, if shorter.

Fair Value of Financial Instruments: The fair values of the Company's registered debt, interest rate swap agreements and investments are based on quoted market prices. The carrying amounts reported in the balance sheet for cash, accrued liabilities, and short-term borrowings approximates their fair values due to the short-term nature of these instruments. Accordingly, these items have been excluded from the fair value disclosures included elsewhere in these notes to consolidated financial statements.

Comprehensive Income: Net income as reported by the Company reflects total comprehensive income for the years ended December 31, 1999, 1998 and 1997.

Equity Instruments Indexed to the Company's Common Stock: Proceeds received upon the sale of equity instruments and amounts paid upon the purchase of equity instruments are recorded as a component of stockholders' equity. Subsequent changes in the fair value of the equity instrument contracts are not recognized. If the contracts are ultimately settled in cash, the amount of cash paid or received is recorded as a component of stockholders' equity.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncement Not Yet Adopted: In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of SFAS No. 133", which deferred the effective date of SFAS No. 133 for one year. The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

The Company will be required to adopt SFAS No. 133 effective as of January 1, 2001 and has not yet quantified the impact of adopting this statement on its financial statements. Further, the Company has not determined the method of adoption of SFAS No. 133. However, SFAS No. 133 could increase the volatility in earnings and other comprehensive income.

2) ACQUISITIONS AND DIVESTITURES

1999 -- During the second quarter of 1999, the Company acquired three behavioral health care facilities located in Illinois, Indiana and New Jersey for a combined purchase price of approximately $27 million, plus contingent consideration of up to $3 million. Also during the second quarter of 1999, the Company exchanged the operations and assets of a 147-bed acute care facility located in Victoria, Texas for the assets and operations of a 117-bed acute care facility located in Laredo, Texas. No gain or loss resulted from this exchange transaction since the fair value of assets acquired was equal to the book value of assets surrendered. In connection with this transaction, the Company also spent $5 million to purchase additional land in Laredo, Texas on which it expects to construct a replacement hospital scheduled to be completed in 2001. During 1999, the Company received total proceeds of $16 million generated primarily from the sale of the real property of two medical office buildings

($14 million). The net gain/loss resulting from these transactions was not material. One of these medical office buildings was sold to Universal Health Realty Income Trust for cash proceeds of $13 million. The aggregate net purchase price of the facilities and land acquired, including the fair value of exchanged facility, was allocated to assets and liabilities based on their estimated fair values as follows:

	Amount (000s)
Working capital, net	$11,000
Property, plant & equipment	6,000
Goodwill	15,000
Total Cash Purchase Price	$32,000

Assuming the acquisitions of the three behavioral health care facilities occurred on January 1, 1999 the effect on the December 31, 1999 unaudited pro forma net revenues, net income and basic and diluted earnings per share would have been immaterial.

1998 -- During the first quarter of 1998, the Company acquired three hospitals located in Puerto Rico for an aggregate purchase price of $187 million. The hospitals acquired were Hospital San Pablo located in Bayamon (430-beds), Hospital San Francisco located in Rio Piedras (160-beds) and Hospital San Pablo del Este located in Fajardo (180-beds). The Hospital San Pablo del Este, which had been closed prior to acquisition, was reopened in April, 1998 after completion of renovations.

Also during the first quarter of 1998, the Company contributed substantially all of the assets, liabilities and operations of Valley Hospital Medical Center, a 417-bed acute care facility, and its newly-constructed Summerlin Hospital, a 148-bed acute care facility in exchange for a 72.5% interest in a series of newly-formed limited liability corporations ("LLCs"). Quorum Health Group, Inc. ("Quorum") holds the remaining 27.5% interest in the LLCs. Quorum obtained its interest by contributing substantially all of the assets, liabilities and operations of Desert Springs Hospital, a 241-bed acute care facility, and $11 million of net cash to the LLCs. The assets and liabilities contributed by the Company were recorded by the LLCs at carryover value. The LLCs applied purchase accounting to the assets and liabilities provided by Quorum and recorded them at fair market value. As a result of this partial sale transaction, the Company recorded a pre-tax gain of $55.1 million ($34.7 million after-tax) that was recorded as a capital contribution to the Company. The Company elected the option of recording the gain to capital in excess of par value in the consolidated balance sheet. The option must be consistently applied to all future gains and losses arising from similar transactions and is adopted as the Company's accounting policy. Also during 1998, the Company spent $2 million to purchase the property of a radiation therapy center located in California.

The aggregate net purchase price of the transactions mentioned above of $178 million ($189 million cash paid less $11 million of net cash received), was allocated to assets and liabilities based on their estimated fair values as follows:

	Amount (000s)
Working capital, net	$ 34,000
Land	23,000
Buildings & equipment	110,000
Goodwill	152,000
Minority interest liability	(85,000)
Deferred income taxes	(21,000)
Additional paid in capital	(35,000)
Total Purchase Price	$178,000

Assuming the 1998 acquisition of Hospital San Pablo and Hospital San Francisco had been completed as of January 1, 1998, the effect on the December 31, 1998 unaudited pro forma net revenues, net income and basic and diluted earnings per share would have been immaterial, as the acquisitions occurred early in 1998. Assuming the above mentioned 1998 acquisitions and the 1997 acquisition of The George Washington University Hospital ("GWUH") had been completed as of January 1, 1997, the unaudited pro forma net revenues and net income for the year ended December 31, 1997 would have been approximately $1.6 billion and $63.9 million, respectively. In addition, the unaudited pro forma basic and diluted earnings per share would have been $1.98 and $1.93, respectively.

1997 -- During the third quarter of 1997 the Company acquired an 80% interest in a partnership which owns and operates GWUH, a 501-bed acute care facility located in Washington, DC. The George Washington University ("GWU") holds a 20% interest in the partnership. In connection with this acquisition, the Company provided an immediate commitment of $80 million, consisting of $40 million in cash (which has been invested and is restricted for construction) and a $40 million surety bond. The Company and GWU are planning to build a newly constructed 371-bed acute care facility which is scheduled to be completed in 2002. The total cost of this new facility is estimated to be approximately $96 million, of which the Company intends to provide a total of $83 million (including the $80 million immediate commitment mentioned above) with the remainder being provided by GWU and the interest earnings on the $40 million of funds restricted for construction.

In addition, during the third and fourth quarters of 1997, the Company completed construction and opened the following facilities: (i) a 129-bed acute care facility located in Edinburg, Texas; (ii) a medical complex located in Summerlin, Nevada including a 148-bed acute care facility, and; (iii) two newly constructed specialized women's health centers located in Austin, Texas and Lakeside, Oklahoma of which the Company, through a subsidiary, owns interests in limited liability companies ("LLCs") which own and operate the facilities. The Company spent a total of $71 million during 1997 for completion of these newly constructed facilities. Also during 1997, the Company spent an additional $11 million to acquire various behavioral healthcare related businesses.

Assuming the 1997 acquisition of GWUH had been completed as of January 1, 1997, the unaudited pro forma net revenues would have been $1.5 billion and the effect on net income and basic and diluted earnings per share would have been immaterial.

3) LONG-TERM DEBT

A summary of long-term debt follows:

	December 31 (000s)	
	1999	1998
Long-term debt:		
Notes payable and Mortages payable (including obligations under capitalized leases of $2,866 in 1999 and $4,185 in 1998) with varying maturities through 2001; weighted average interest at 7.0% in 1999 and 6.8% in 1998 (see Note 6 regarding capitalized leases)	$ 6,240	$ 9,062
Revolving credit and demand notes	173,890	175,740
Commercial paper	90,000	85,000
Revenue bonds:		
Interest at floating rates ranging from 5.4% to 5.7% at December 31, 1999 with varying maturities through 2015	18,200	18,200
8.75% Senior Notes due 2005, net of the unamortized discount of $621 in 1999 and $732 in 1998	134,379	134,268
	422,709	422,270
Less-Amounts due within one year	3,506	4,082
	$419,203	$418,188

The Company has $135 million of Senior Notes which have an 8.75% coupon rate and which mature on August 15, 2005. The Notes can be redeemed in whole or in part, at any time on or after August 15, 2000, initially at a price of 102%, declining ratably to par on or after August 15, 2002. The interest on the bonds is paid semiannually in arrears on February 15 and August 15 of each year. In anticipation of the Senior Note issuance, the Company entered into interest rate swap agreements having a total notional principal amount of $100 million to hedge the interest rate on the Notes. These interest rate swaps were terminated simultaneously with the issuance of the Notes at which time the Company paid a net termination fee of $5.4 million which is being amortized ratably over the ten year term of the Senior Notes. The effective rate on the Notes including the amortization of swap termination fees and bond discount is 9.2%.

The Company has a $400 million unsecured non-amortizing revolving credit agreement, which expires on July 8, 2002. The agreement includes a $50 million sublimit for letters of credit. The interest rate on borrowings is determined at the Company's option at the prime rate, certificate of deposit rate plus .375% to .625%, Euro-dollar plus .25% to .50% or a money market rate. A facility fee ranging from .125% to .375% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio. At December 31, 1999 the applicable margins over the certificate of deposit and the Euro-dollar rate were .55% and .425%, respectively, and the commitment fee was .20%. There are no compensating balance requirements. At December 31, 1999, the Company had $222 million of unused borrowing capacity available under the revolving credit agreement.

The Company also has a $100 million commercial paper credit facility. A large portion of the Company's acute care patient accounts receivable are pledged as collateral to secure this commercial paper program. A commitment fee of .40% is required on the used portion and .20% on the unused portion of the commitment. This annually renewable program, which began in November 1993, is scheduled to expire or be renewed on October 30th of each year. Outstanding amounts of commercial paper which can be refinanced through available borrowings under the Company's revolving credit agreement are classified as long-term. As of December 31, 1999, the Company had $10 million unused borrowing capacity under the terms of the commercial paper facility.

The average amounts outstanding during 1999, 1998 and 1997 under the revolving credit and demand notes and commercial paper program were $246.1 million, $234.2 million and $100.3 million, respectively, with corresponding effective interest rates of 6.2%, 6.4%, and 6.8% including commitment and facility fees. The maximum amounts outstanding at any month-end were, $263.9 million in 1999, $289.6 million in 1998 and $124.2 million in 1997.

As of December 31, 1999 and 1998, the Company had two interest rate swap agreements that fixed the rate of interest on a notional principal amount of $50 million for a period of three years. These interest rate swaps expired on January 4, 2000. The average fixed rate obtained through these interest rate swaps was 6.20% including the Company's current borrowing spread of .425%. The Company is also a party to three forward starting interest rate swaps to fix the rate of interest on a total notional principal amount of $75 million. The starting date on the interest rate swaps is August, 2000 and they mature in August, 2010. The average fixed rate of the three forward starting interest rate swaps, including the Company's current borrowing spread of .425%, is 7.2%. The effective interest rate on the Company's revolving credit, demand notes and commercial paper program, including the interest rate swap expense incurred on existing and now expired interest rate swaps, was 6.2%, 6.4%, and 6.8% during 1999, 1998 and 1997, respectively. Additional interest expense recorded as a result of the Company's hedging activity was $202,000, $75,000 and $0 in 1999, 1998 and 1997, respectively. The Company is exposed to credit loss in the event of non-performance by the counterparty to the interest rate swap agreements. All of the counterparties are creditworthy financial institutions rated AA or better by Moody's Investor Service and the Company does not anticipate non-performance. The estimated fair value of the interest rate swap obligations at December 31, 1999 was approximately $2.9 million.

Covenants relating to long-term debt require maintenance of a minimum net worth, specified debt to total capital and fixed charge coverage ratios. The Company is in compliance with all required covenants as of December 31, 1999.

The fair value of the Company's long-term debt at December 31, 1999 and 1998 was approximately $420.5 million and $429.0 million, respectively.

Aggregate maturities follow:

	(000s)
2000	$ 3,506
2001	658
2002	265,500
2003	187
2004	200
Later	152,658
Total	$422,709

4) COMMON STOCK

During the third quarter of 1998, the Company's Board of Directors approved a stock repurchase program authorizing the Company to purchase up to two million shares or approximately 6% of its outstanding Class B Common Stock. This initial repurchase program was completed during the third quarter of 1999, at which time, the Board of Directors approved a plan for repurchase of up to an additional two million shares of the Company's Class B Common Stock and during the fourth quarter of 1999, the Board of Director's approved a plan for an additional two million shares. Pursuant to the stock repurchase programs, the Company, from time to time and as conditions allow, may purchase a total of up to six million shares on the open market at prevailing market prices or in negotiated transactions off the market. Pursuant to the terms of these programs, the Company repurchased 580,500 shares at an average repurchase price of $42.90 per share ($24.9 million in the aggregate) during 1998 and 2,028,379 shares at an average repurchase price of $35.10 ($71.2 million in the aggregate) during 1999. Since inception of the repurchase program in 1998 through December 31, 1999, the Company repurchased a total of 2,608,879 shares at an average repurchase price of $36.85 per share ($96.1 million in the aggregate).

In conjunction with the Company's stock repurchase program, during 1998 and 1999, the Company sold European-style put options which entitle the holder to sell shares of the Company's Class B Common Stock to the Company at a specified price. The Company also purchased European-style call options which entitle the Company to purchase shares of the Company's Class B Common Stock at a specified price. As of December 31, 1999 put options totaling 1,458,500 shares, with an average strike price of $28.47, were outstanding with various expiration dates in the second and third quarters of 2000. As of December 31, 1999 call options totaling 1,034,000 shares, with an average strike price of $28.47 per share, were outstanding with various expiration dates in the second and third quarters of 2000. As of December 31, 1999 the fair market value of these instruments was approximately $8 million.

At December 31, 1999, 5,700,819 shares of Class B Common Stock were reserved for issuance upon conversion of shares of Class A, C and D Common Stock outstanding, for issuance upon exercise of options to purchase Class B Common Stock, and for issuance of stock under other incentive plans. Class A, C and D Common Stock are convertible on a share for share basis into Class B Common Stock.

SFAS No. 123 requires the Company to disclose pro-forma net income and pro-forma earnings per share as if compensation expense were recognized for options granted beginning in 1995. Using this approach, the Company's net earnings and earnings per share would have been the pro forma amounts indicated below:

	Year Ended December 31,		
	1999	1998	1997
	(000s, except per share amounts)		
Net Income:			
As Reported	$ 77,775	$ 79,558	$ 67,276
Pro Forma	$ 75,298	$ 78,362	$ 66,672
Earnings Per Share:			
As Reported:			
Basic	$ 2.48	$ 2.45	$ 2.08
Diluted	$ 2.43	$ 2.39	$ 2.03
Pro Forma:			
Basic	$ 2.40	$ 2.41	$ 2.06
Diluted	$ 2.35	$ 2.35	$ 2.01

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following range of assumptions used for the thirteen option grants that occurred during 1999, 1998 and 1997:

Year Ended December 31,	1999	1998	1997
Volatility	31%-38%	21%-28%	21%-23%
Interest rate	5%-6%	5%-6%	6%-7%
Expected life (years)	4.3	4.1	4.2
Forfeiture rate	3%	2%	2%

Stock-based compensation costs on a pro forma basis would have reduced pretax income by $4.0 million ($2.5 million after tax) in 1999, $1.9 million ($1.2 million after-tax) in 1998 and $1.0 million ($604,000 after-tax) in 1997. Because the SFAS 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma disclosures may not be representative of that to be expected in future years.

Stock options to purchase Class B Common Stock have been granted to officers, key employees and directors of the Company under various plans.

Information with respect to these options is summarized as follows:

Outstanding Options	Number of Shares	Average Option Price	Range (High-Low)
Balance, January 1, 1997	1,534,048	$13.43	$25.13-$ 5.69
Granted	243,250	$41.22	$44.56-$37.88
Exercised	(319,225)	$11.30	$25.13-$ 5.69
Cancelled	(42,500)	$12.54	$25.13-$ 9.81
Balance, January 1, 1998	1,415,573	$18.71	$44.56-$ 7.44
Granted	448,000	$51.73	$56.56-$47.81
Exercised	(262,511)	$14.46	$41.25-$ 7.44
Cancelled	(8,500)	$37.89	$47.81-$23.25
Balance, January 1, 1999	1,592,562	$28.60	$56.56-$ 9.81
Granted	641,330	$32.49	$51.12-$23.69
Exercised	(467,587)	$11.52	$ 9.81-$41.25
Cancelled	(63,850)	$41.40	$52.00-$16.56
Balance, December 31, 1999	1,702,455	$34.28	$56.56-$14.63

Outstanding Options at December 31, 1999:

Number of Shares	Average Option Price	Range (High-Low)	Contractual Life
771,250	$20.28	$23.69-$14.63	2.5
931,205	$45.87	$ 56.56-37.88	3.7
1,702,455			

During 1999, subject to shareholder approval, the Board of Directors approved a 1 million share increase in the reserve for Class B Common Stock available for grant pursuant to the terms of the 1992 Stock Option Plan. All stock options were granted with an exercise price equal to the fair market value on the date of the grant. Options are exercisable ratably over a four-year period beginning one year after the date of the grant. The options expire five years after the date of the grant. The outstanding stock options at December 31, 1999 have an average remaining contractual life of 2.9 years. At December 31, 1999, options for 744,219 shares were available for grant. At December 31, 1999, options for 634,808 shares of Class B Common Stock with an aggregate purchase price of $16.9 million (average of $26.55 per share) were exercisable. In connection with the stock option plan, the Company provides the optionee with a three year loan to cover the tax liability incurred upon exercise of the options. The loan is forgiven on the maturity date if the optionee is employed by the Company on that date. The Company recorded compensation expense over the service period and recognized compensation expense of $7.6 million in 1999, $8.4 million in 1998 and $5.1 million in 1997 in connection with this loan program.

In addition to the stock option plan the Company has the following stock incentive and purchase plans: (i) a Stock Compensation Plan which expires in November, 2004 under which Class B Common Shares may be granted to key employees, consultants and independent contractors (officers and directors are ineligible); (ii) a Stock Ownership Plan whereby eligible employees may purchase shares of Class B Common Stock directly from the Company at current market value and the Company will loan each eligible employee 90% of the purchase price for the shares, subject to certain limitations, (loans are partially recourse to the employees); (iii) a Restricted Stock Purchase Plan which allows eligible participants to purchase shares of Class B Common Stock at par value, subject to certain restrictions, and; (iv) a Stock Purchase Plan which allows eligible employees to purchase shares of Class B Common Stock at a ten percent discount. The Company has reserved 2 million shares of Class B Common Stock for issuance under these various plans and has issued 1,032,617 shares pursuant to the terms of these plans as of December 31, 1999, of which 57,680, 42,010 and 41,196 became fully vested during 1999, 1998 and 1997, respectively. Compensation expense of $1.1million in 1999, $488,000 in 1998 and $5.2 million in 1997 was recognized in connection with these plans.

5) INCOME TAXES

Components of income tax expense are as follows:

	Year Ended December 31		
	1999	1998	1997
	(000s)		
Currently payable			
Federal	$48,558	$18,731	$23,923
State	4,449	1,738	2,989
	53,007	20,469	26,912
Deferred			
Federal	(7,350)	21,122	10,201
State	(649)	1,863	1,534
	(7,999)	22,985	11,735
Total	$45,008	$43,454	$38,647

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," (SFAS 109). Under SFAS 109, deferred taxes are required to be classified based on the financial statement classification of the related assets and liabilities which give rise to temporary differences. Deferred taxes result from temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The components of deferred taxes are as follows:

	Year Ended December 31, 1999	Year Ended December 31, 1998
	(000s)	
Self-insurance reserves	$ 30,305	$ 31,984
Doubtful accounts and other reserves	8,541	(1,699)
State income taxes	(1,354)	766
Other deferred tax assets	10,084	7,532
Depreciable and amortizable assets	(51,427)	(50,997)
Total deferred taxes	$ (3,851)	$(12,414)

A reconciliation between the federal statutory rate and the effective tax rate is as follows:

	Year Ended December 31, 1999	1998	1997
Federal statutory rate	35.0%	35.0%	35.0%
Deductible depreciation, amortization and other	(0.2)	(1.6)	(1.3)
State taxes, net of federal income tax benefit	1.9	1.9	2.8
Effective tax rate	36.7%	35.3%	36.5%

The net deferred tax assets and liabilities are comprised as follows:

	Year Ended December 31, 1999	Year Ended December 31, 1998
	(000s)	
Current deferred taxes		
Assets	$ 26,768	$ 12,315
Liabilities	--	(1,477)
Total deferred taxes--current	26,768	10,838
Noncurrent deferred taxes		
Assets	22,384	27,967
Liabilities	(53,003)	(51,219)
Total deferred taxes--noncurrent	(30,619)	(23,252)
Total deferred taxes	$ (3,851)	$(12,414)

The assets and liabilities classified as current relate primarily to the allowance for uncollectible patient accounts and the current portion of the temporary differences related to self-insurance reserves. Under SFAS 109, a valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income. Although realization is not assured, management believes it is more likely than not that all the deferred tax assets will be realized. Accordingly, the Company has not provided a valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced if estimates of future taxable income during the carry forward period are reduced.

6) LEASE COMMITMENTS

Certain of the Company's hospital and medical office facilities and equipment are held under operating or capital leases which expire through 2006 (See Note 8). Certain of these leases also contain provisions allowing the Company to purchase the leased assets during the term or at the expiration of the lease at fair market value.

A summary of property under capital lease follows:

	Year Ended December 31, 1999	1998
	(000s)	
Land, buildings and equipment	$ 25,605	$ 25,579
Less: accumulated amortization	(22,902)	(22,084)
	$ 2,703	$ 3,495

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 1999, are as follows:

Year	Capital Leases	Operating Leases
	(000s)	
2000	$1,596	$21,208
2001	565	18,040
2002	444	11,771
2003	211	10,093
2004	211	8,826
Later Years	53	21,558
Total minimum rental	$3,080	$91,496
Less: Amount representing interest	214	
Present value of minimum rental commitments	2,866	
Less: Current portion of capital lease obligations	1,546	
Long-term portion of capital lease obligations	$1,320	

Capital lease obligations of $1.1 million in 1999, $160,000 in 1998 and $3.1 million in 1997, were incurred when the Company entered into capital leases for new equipment.

7) COMMITMENTS AND CONTINGENCIES

Effective January 1, 1998, the Company's subsidiaries are covered under commercial insurance policies which provide for a self-insured retention limit for professional and general liability claims for most of its subsidiaries up to $1 million per occurrence, with an average annual aggregate for covered subsidiaries of $6 million through 2001. These subsidiaries maintain excess coverage up to $100 million with major insurance carriers. The Company's remaining facilities are fully insured under commercial policies with excess coverage up to $100 million maintained with major insurance carriers. During 1996 and 1997, most of the Company's subsidiaries were self-insured for professional and general liability claims up to $5 million per occurrence, with excess coverage maintained up to $100 million with major insurance carriers. From 1986 to 1995, these subsidiaries were self-insured for professional and general liability claims up to $25 million and $5 million per occurrence, respectively. Since 1993, certain of the Company's subsidiaries, including one of its larger acute care facilities, have purchased general and professional liability occurrence policies with commercial insurers. These policies include coverage up to $25 million per occurrence for general and professional liability risks.

As of December 1999 and 1998, the reserve for professional and general liability claims was $58.0 million and $65.0 million, respectively, of which $6.8 million and $5.5 million in 1999 and 1998, respectively, is included in current liabilities. Self-insurance reserves are based upon actuarially determined estimates. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions for such things as medical costs as well as changes in actual experience could cause these estimates to change in the near term.

The Company has outstanding letters of credit totaling $54.5 million consisting of: (i) a $40 million surety bond related to the Company's 1997 acquisition of an 80% interest in the George Washington University Hospital; (ii) $8.0 million related to the Company's self insurance programs; (iii) $5.8 million as support for a loan guarantee for an unaffiliated party, and; (iv) $700,000 as support for various debt instruments.

The Company has entered into a long-term contract with a third party to provide certain data processing services for its acute care and behavioral health facilities. The term of this contract, which was extended during 1999, expires in 2007.

During the fourth quarter of 1999, the Company made a decision to close/sell one of its specialized women's centers and recorded a $5.3 million charge to reduce the carrying value of the facility to its estimated realizable value of approximately $9 million, based on an independent appraisal. The Company is involved in litigation with respect to this facility and may incur additional charges in the event it is unable to close or sell the facility for a significant period of time or suffers an unfavorable outcome from this litigation. In addition, various suits and claims arising in the ordinary course of business are pending against the Company. In the opinion of management, the outcome of such claims and litigation will not materially affect the Company's consolidated financial position or results of operations.

8) RELATED PARTY TRANSACTIONS

At December 31, 1999, the Company held approximately 8% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). Certain officers and directors of the Company are also officers and/or directors of the Trust. The Company accounts for its investment in the Trust using the equity method of accounting. The Company's pre-tax share of income from the Trust was $1.1 million in each year ended December 31, 1999, 1998 and 1997, and is included in net revenues in the accompanying consolidated statements of income. The carrying value of this investment at December 31, 1999 and 1998 was $8.3 million and $8.2 million, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of this investment at December 31, 1999 and 1998 was $10.5 million and $13.7 million, respectively.

As of December 31, 1999, the Company leased seven hospital facilities from the Trust with terms expiring in 2000 through 2006. These leases contain up to six 5-year renewal options. During 1998, the Company exercised five-year renewal options on four hospitals leased from the Trust which were scheduled to expire in 1999 through 2001. The leases on these facilities were renewed at the same lease rates and terms as the initial leases. Future minimum lease payments to the Trust are included in Note 6. Total rent expense under these operating leases was $16.6 million in 1999, $16.5 million in 1998 and $16.3 million in 1997. The terms of the lease provide that in the event the Company discontinues operations at the leased facility for more than one year, the Company is obligated to offer a substitute property. If the Trust does not accept the substitute property offered, the Company is obligated to purchase the leased facility back from the Trust at a price equal to the greater of its then fair market value or the original purchase price paid by the Trust. The Company received an advisory fee of $1.2 million in 1999 and 1998 and $1.1 million in 1997 from the Trust for investment and administrative services provided under a contractual agreement which is included in net revenues in the accompanying consolidated statement of income. During 1999, the Company sold the real property of a medical office building to the Trust for cash proceeds of approximately $13 million. Tenants in the multi-tenant building include subsidiaries of the Company as well as unrelated parties.

A member of the Company's Board of Directors is a partner in the law firm used by the Company as its principal outside counsel.

9) PENSION PLAN

The Company maintains contributory and non-contributory retirement plans for eligible employees. The Company's contributions to the contributory plan amounted to $4.2 million, $4.6 million and $3.6 million in 1999, 1998 and 1997, respectively. The non-contributory plan is a defined benefit pension plan which covers employees of one of the Company's subsidiaries. The benefits are based on years of service and the employee's highest compensation for any five years of employment. The Company's funding policy is to contribute annually at least the minimum amount that should be funded in accordance with the provisions of ERISA.

The following table shows reconciliations of the defined benefit pension plan for the Company as of December 31, 1999 and 1998:

	1999	1998
	(000s)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$49,285	$43,573
Service cost	1,041	904
Interest cost	3,280	3,001
Benefits paid	(1,629)	(1,381)
Actuarial (gain) loss	(5,522)	3,188
Benefit obligation at end of year	46,455	49,285
Change in plan assets:		
Fair value of plan assets at beginning of year	$50,702	$33,974
Actual return on plan assets	4,096	7,998
Company contributions	0	10,203
Benefits paid	(1,629)	(1,381)
Administrative expenses	(202)	(92)
Fair value of plan assets at end of year	$52,967	$50,702
Funded status of the plan	$ 6,512	$ 1,417
Unrecognized actuarial gain	(8,446)	(3,559)
Net amount recognized	(1,934)	(2,142)
Total amounts recognized in the balance sheet consist of:		
Accrued benefit liability	$(1,934)	$(2,142)
Weighted average assumptions as of December 31		
Discount rate	7.50%	6.75%
Expected long-term rate of return on plan assets	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%

	1999	1998	1997
		(000s)	
Components of net periodic benefit cost			
Service cost	$ 1,041	$ 905	$ 854
Interest cost	3,280	3,001	2,783
Expected return on plan assets	(4,530)	(3,316)	(2,446)
Net periodic (benefit) cost	$ (209)	$ 590	$ 1,191

The fair value of plan assets exceeded the benefit obligations of the plan, as of December 31, 1999 and 1998, respectively.

10) SEGMENT REPORTING

The Company's reportable operating segments consist of acute care services and behavioral health care services. The "Other" segment column below includes centralized services including information services, purchasing, reimbursement, accounting, taxation, legal, advertising, design and construction, and patient accounting. Also included are the operating results of the Company's other operating entities including the outpatient surgery and radiation therapy centers and specialized women's health centers. The chief operating decision making group for the Company's acute care services and behavioral health care services is comprised of the Company's President and Chief Executive Officer, and the lead executives of each of the Company's two primary operating segments. The lead executive for each operating segment also manages the profitability of each respective segment's various hospitals. The operating segments are managed separately because each operating segment represents a business unit that offers different types of healthcare services. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

1999	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
	(Dollar amounts in thousands)			
Gross inpatient revenues	$2,766,295	$414,468	$ 26,675	$3,207,438
Gross outpatient revenues	$ 960,338	$ 97,056	$108,502	$1,165,896
Total net revenues	$1,691,329	$270,638	$ 80,413	$2,042,380
EBITDAR(a)	$ 310,445	$ 44,866	$(36,743)	$ 318,568
Total assets	$1,233,652	$154,792	$109,529	$1,497,973
Licensed beds	4,806	1,976	--	6,782
Available beds	4,099	1,961	--	6,060
Patient days	963,842	444,632	--	1,408,474
Admissions	204,538	37,810	--	242,348
Average length of stay	4.7	11.8	--	5.8

1998	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
	(Dollar amounts in thousands)			
Gross inpatient revenues	$2,440,526	$341,592	$ 21,774	$2,803,892
Gross outpatient revenues	$ 846,698	$ 91,465	$ 80,621	$1,018,784
Total net revenues	$1,576,107	$233,010	$ 65,370	$1,874,487
EBITDAR(a)	$ 316,263	$ 38,556	$(43,649)	$ 311,170
Total assets	$1,217,363	$127,500	$103,232	$1,448,095
Licensed beds	4,696	1,782	--	6,478
Available beds	3,985	1,767	--	5,752
Patient days	884,966	365,935	--	1,250,901
Admissions	187,833	32,400	--	220,233
Average length of stay	4.7	11.3	--	5.7

1997	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
	(Dollar amounts in thousands)			
Gross inpatient revenues	$1,737,092	$312,663	$ 7,011	$2,056,766
Gross outpatient revenues	$ 608,470	$ 78,118	$ 57,791	$ 744,379
Total net revenues	$1,189,043	$205,640	$ 47,994	$1,442,677
EBITDAR(a)	$ 252,839	$ 35,333	$(43,529)	$ 244,643
Total assets	$ 847,854	$128,662	$108,833	$1,085,349
Licensed beds	3,389	1,777	--	5,166
Available beds	2,951	1,762	--	4,713
Patient days	616,965	336,850	--	953,815
Admissions	128,020	28,350	--	156,370
Average length of stay	4.8	11.9	--	6.1

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(a) EBITDAR--Earnings before interest, income taxes, depreciation, amortization, lease & rental, minority interest expense and nonrecurring changes.

EXHIBIT 10.37

UNIVERSAL HEALTH SERVICES, INC.
AMENDED AND RESTATED

1992 STOCK OPTION PLAN

1. Purpose. The purpose of the Universal Health Services, Inc. 1992 Stock Option Plan (the "Plan") is to enable Universal Health Services, Inc. (the "Company") and its stockholders to secure the benefits of common stock ownership by personnel of the Company and its subsidiaries. The Board of Directors of the Company (the "Board") believes that the granting of options under the Plan will foster the Company's ability to attract, retain and motivate those individuals who will be largely responsible for the continued profitability and long-term future growth of the Company.

2. Stock Subject to the Plan. The Company may issue and sell a total of 4,000,000 shares of its Class B Common Stock, $.01 par value (the "Common Stock"), pursuant to the Plan. Such shares may be either authorized and unissued or held by the Company in its treasury. New options may be granted under the Plan with respect to shares of Common Stock which are covered by the unexercised portion of an option which has terminated or expired by its terms, by cancellation or otherwise.

3. Administration. The Plan will be administered by the Board of Directors of the Company (the "Board"). Subject to the provisions of the Plan, the Board, acting in its sole and absolute discretion, will have full power and authority to grant options under the Plan, to interpret the provisions of the Plan and option agreements made under the Plan, to supervise the administration of the Plan, and to take such other action as may be necessary or desirable in order to carry out the provisions of the Plan. The Board may act by the vote of a majority of it members present at a meeting at which there is a quorum or by unanimous written consent. The decision of the Board as to any disputed question, including questions of construction, interpretation and administration, will be final and conclusive on all persons. The Board will keep a record of its proceedings and acts and will keep or caused to be kept such books and records as may be necessary in connection with the proper administration of the Plan. Notwithstanding the foregoing, the Board shall have the authority to appoint a committee (the "Committee") of the Board whose members shall satisfy the requirements of Section 162(m) of the Internal Revenue Code of 1986 (the "Code"), and the requirements of Rule 16b-3(b)(3)(i) under the Securities Exchange Act of 1934, as amended (or any successor laws or regulations), to grant options to executive officers of the Company and, all references to "the Board" hereunder with respect to the grant of such options shall be deemed to refer to such Committee.

4. Eligibility. Options may be granted under the Plan to present or future employees of the Company or a subsidiary of the Company (a "Subsidiary") within the meaning of Section 424(f) of the Code, consultants to the Company or a Subsidiary who are not employees, and to directors of the Company or a Subsidiary whether or not they are employees of or consultants to the Company and/or a Subsidiary. Subject to the provisions of the Plan, the Board may from time to time select the persons to whom options will be granted, and will fix the number of

shares covered by each such option and establish the terms and conditions thereof (including, without limitation, exercise price, which in the case of grants by the Committee shall not be less than fair market value of the Common Stock on the date of grant, and restrictions on exercisability of the option or on the shares of Common Stock issued upon exercise thereof). Notwithstanding anything to the contrary contained herein no person may receive grants of options to purchase more than 200,000 shares in any one calendar year.

5. Terms and Conditions of Options. Each option granted under the Plan will be evidenced by a written agreement in a form approved by the Board. Each such option will be subject to the terms and conditions set forth in this paragraph and such additional terms and conditions not inconsistent with the Plan as the Board deems appropriate.

(a) Option Period. The period during which an option may be exercised will be fixed by the Board and will not exceed 10 years from the date the option is granted.

(b) Exercise of Options. An option may be exercised by transmitting to the Company (1) a written notice specifying the number of shares to be purchased, and (2) payment of the exercise price (or, if applicable, delivery of a secured obligation therefor), together with the amount, if any, deemed necessary by the Company to enable it to satisfy its income tax withholding obligations with respect to such exercise (unless other arrangements acceptable to the Company are made with respect to the satisfaction of such withholding obligations).

(c) Payment of Exercise Price. The purchase price of shares of Common Stock acquired pursuant to the exercise of an option granted under the Plan may be paid in cash and/or such other form of payment as may be permitted under the option agreement, including, without limitation, previously-owned shares of Common Stock. The Board may permit the payment of all or a portion of the purchase price in installments (together with interest) over a period of not more than 5 years. The Board may permit the Company to lend money to employees for purposes of exercising options and paying any income tax due upon exercise. The Board may, in its sole discretion, forgive any amounts due under the loans made hereunder under such conditions as it deems appropriate.

(d) Rights as a Stockholder. No shares of Common Stock will be issued in respect of the exercise of an option granted under the Plan until full payment therefor has been made (and/or provided for where all or a portion of the purchase price is being paid in installments). The holder of an option will have no rights as a stockholder with respect to any shares covered by an option until the date a stock certificate for such shares is issued to him or her. Except as otherwise provided herein, no adjustments shall be made for dividends or distributions of other rights for which the record date is prior to the date such stock certificate is issued.

(e) Nontransferability of Options. Options granted under the Plan may be assigned or transferred to members of the immediate family of optionee or trusts for the benefit of immediate family members, unless otherwise prohibited by the Option Agreement, by will or by the applicable laws of descent and distribution or dissemination: and each such option may be exercised during the optionee's lifetime only by the optionee.

(f) Termination of Employment or Other Service. Unless otherwise provided by the Board in its sole discretion, if an optionee ceases to be employed by or to perform services for the Company and any Subsidiary for any reason other than death or disability (defined below), then each outstanding option granted to him or her under the Plan will terminate on the date of termination of employment or service (or, if earlier, the date specified in the option agreement). Unless otherwise provided by the Board in its sole discretion, if an optionee's employment or service is terminated by reason of the optionee's death or disability (or if the optionee's employment or service is terminated by reason of his or her disability and the optionee dies within one year after such termination of employment or service), then each outstanding option granted to the optionee under the Plan will terminate on the date one year after the date of such termination of employment or service (or one year after the later death of a disabled optionee) or, if earlier, the date specified in the option agreement. For purposes hereof, the term "disability" means the inability of an optionee to perform the customary duties of his or her employment or other service for the Company or a Subsidiary by reason of a physical or mental incapacity which is expected to result in death or be of indefinite duration.

(g) Other Provisions. The Board may impose such other conditions with respect to the exercise of options, including, without limitation, any conditions relating to the application of federal or state securities laws, as it may deem necessary or advisable.

6. Capital Changes, Reorganization, Sale.

(a) Adjustments Upon Changes in Capitalization. The aggregate number and class of shares for which options may be granted under the Plan, the maximum number of shares for which options may be granted to any person in any one calendar year, the number and class of shares covered by each outstanding option and the exercise price per share shall all be adjusted proportionately for any increase or decrease in the number of issued shares of Common Stock resulting from a split-up or consolidation of shares or any like capital adjustment, or the payment of any stock dividend.

(b) Cash, Stock or Other Property for Stock. Except as provided in subparagraph (c) below, upon a merger (other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of Common Stock in the surviving corporation immediately after the merger), consolidation, acquisition of property or stock, separation, reorganization (other than a mere reincorporation or the creation of a

holding company) or liquidation of the Company, as a result of which the Stockholders of the Company receive cash, stock or other property in exchange for or in connection with their shares of Common Stock, any option granted hereunder shall terminate, but the optionee shall have the right immediately prior to any such merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation to exercise his or her option in whole or in part to the extent permitted by the option agreement, and, if the Board in its sole discretion shall determine, at the time of grant or otherwise, may exercise the option whether or not the vesting requirements set forth in the option agreement have been satisfied.

(c) Conversion of Options on Stock for Stock Exchange. If the Stockholders of the Company receive capital stock of another corporation ("Exchange Stock") in exchange for their shares of Common Stock in any transaction involving a merger (other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of Common Stock in the surviving corporation immediately after the merger), consolidation, acquisition of property or stock, separation or reorganization (other than a mere reincorporation or the creation of a holding company), all options granted hereunder shall be converted into options to purchase shares of Exchange Stock unless the Company and the corporation issuing the Exchange Stock, in their sole discretion, determine that any or all such options granted hereunder shall not be converted into options to purchase shares of Exchange Stock but instead shall terminate in accordance with the provisions of subparagraph (b) above. The amount and price of converted options shall be determined by adjusting the amount and price of the options granted hereunder in the same proportion as used for determining the number of shares of Exchange Stock the holders of the Common Stock receive in such merger, consolidation, acquisition of property or stock, separation or reorganization. The Board shall determine in its sole discretion if the converted options shall be fully vested whether or not the vesting requirements set forth in the option agreement have been satisfied.

(d) Fractional Shares. In the event of any adjustment in the number of shares covered by any option pursuant to the provisions hereof, any fractional shares resulting from such adjustment will be disregarded and each such option will cover only the number of full shares resulting from the adjustment.

(e) Determination of Board to be Final. All adjustments under this paragraph 6 shall be made by the Board, and its determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive.

7. Amendment and Termination of the Plan. The Board may amend or terminate the Plan at any time. No amendment or termination may affect adversely any outstanding option without the written consent of the optionee.

8. No Rights Conferred. Nothing contained herein will be deemed to give any individual any right to receive an option under the Plan or to be retained in the employ or service of the Company or any Subsidiary.

9. Governing Law. The Plan and each option agreement shall be governed by the laws of the State of Delaware.

10. Stockholder Approval; Term of the Plan. The Plan was adopted by the Board on July 15, 1992 and amended on September 28, 1999, subject to the approval of the Amendment by the Stockholders of the Company at the next Annual Meeting of Stockholders. The Plan will terminate on July 15, 2002, unless sooner terminated by the Board. The rights of optionees under options outstanding at the time of the termination of the Plan shall not be affected solely by reason of the termination and shall continue in accordance with the terms of the option (as then in effect or thereafter amended).

[LETTERHEAD OF UNIVERSAL HEALTH]

January 7, 2000

Mr. Alan B. Miller
President
UHS of Delaware, Inc.
367 South Gulph Road
King of Prussia, PA 19406

Dear Alan:

The Board of Trustees of Universal Health Realty Income Trust at their December 1, 1999, meeting authorized the renewal of the current Advisory Agreement between the Trust and UHS of Delaware, Inc. ("Agreement") upon the same terms and conditions.

This letter constitutes the Trust's offer to renew the Agreement until December 31, 2000, upon the same terms and conditions. Please acknowledge UHS of Delaware, Inc.'s acceptance of this offer by signing in the space provided below and returning one copy of this letter to me.

Sincerely yours,

/s/ Kirk E. Gorman
President and Secretary

cc: Warren J. Nimetz, Esquire
Charles Boyle

Agreed to and Accepted:

UHS OF DELAWARE, INC.

By: /s/ Alan B. Miller

Alan B. Miller, President

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
ASC OF CORONA, INC.	CALIFORNIA
ASC OF LAS VEGAS, INC.	NEVADA
ASC OF LITTLETON, INC.	COLORADO
ASC OF MIDWEST CITY, INC.	OKLAHOMA
ASC OF NEW ALBANY, INC.	INDIANA
ASC OF PALM SPRINGS, INC.	CALIFORNIA
ASC OF PONCA CITY, INC.	OKLAHOMA
ASC OF SPRINGFIELD, INC.	MISSOURI
ASC OF ST. GEORGE, INC.	UTAH
AIKEN REGIONAL MEDICAL CENTERS, INC.	SOUTH CAROLINA
ARBOUR ELDER SERVICES, INC.	MASSACHUSETTS
ARKANSAS SURGERY CENTER OF FAYETTEVILLE, L.P.	ARKANSAS
AUBURN REGIONAL MEDICAL CENTER, INC.	WASHINGTON
BLUEGRASS REGIONAL CANCER CENTER, L.L.P.	KENTUCKY
CAPITOL RADIATION THERAPY, L.L.P.	KENTUCKY
CHALMETTE MEDICAL CENTER, INC.	LOUISIANA
CHILDREN'S REACH, L.L.C.	PENNSYLVANIA
CHOATE HEALTH MANAGEMENT, INC.	MASSACHUSETTS

COMPREHENSIVE OCCUPATIONAL AND CLINICAL HEALTH, INC.	DELAWARE
DANVILLE RADIATION THERAPY, L.L.P.	KENTUCKY
DEL AMO HOSPITAL, INC.	CALIFORNIA
DISTRICT HOSPITAL PARTNERS, L.P.	DISTRICT OF COLUMBIA
DOCTORS' HOSPITAL OF SHREVEPORT, INC.	LOUISIANA
EYE WEST LASER VISION, L.P.	DELAWARE
FOREST VIEW PSYCHIATRIC HOSPITAL, INC.	MICHIGAN
GLEN OAKS HOSPITAL, INC.	TEXAS
HRI CLINICS, INC.	MASSACHUSETTS
HRI HOSPITAL, INC.	MASSACHUSETTS
HEALTH CARE FINANCE & CONSTRUCTION CORP.	DELAWARE
HOPE SQUARE SURGICAL CENTER, L.P.	DELAWARE
INLAND VALLEY REGIONAL MEDICAL CENTER, INC.	CALIFORNIA
INTERNAL MEDICINE ASSOCIATES OF DOCTORS' HOSPITAL, INC.	LOUISIANA
LA AMISTAD RESIDENTIAL TREATMENT CENTER, INC.	FLORIDA
LAREDO HOLDINGS, INC.	DELAWARE
LAREDO REGIONAL MEDICAL CENTER, L.P.	DELAWARE
LAREDO REGIONAL, INC.	DELAWARE
MADISON RADIATION ONCOLOGY ASSOCIATES, L.L.C.	INDIANA
MANATEE MEMORIAL HOSPITAL, L.P.	DELAWARE
MCALLEN HOLDINGS, INC.	DELAWARE

MCALLEN MEDICAL CENTER PHYSICIANS GROUP, INC.	TEXAS
MCALLEN MEDICAL CENTER, INC.	TEXAS
MCALLEN MEDICAL CENTER, L.P.	DELAWARE
MERIDELL ACHIEVEMENT CENTER, INC.	TEXAS
MERION BUILDING MANAGEMENT, INC.	DELAWARE
NEVADA RADIATION ONCOLOGY CENTER-WEST, L.L.C.	NEVADA
NEW ALBANY OUTPATIENT SURGERY, L.P.	DELAWARE
NORTHERN NEVADA MEDICAL CENTER, L.P.	DELAWARE
NORTHWEST TEXAS HEALTHCARE SYSTEM, INC.	TEXAS
NORTHWEST TEXAS SURGICAL HOSPITAL, L.L.C.	TEXAS
OASIS HEALTH SYSTEMS, L.L.C.	NEVADA
PROFESSIONAL PROBATION SERVICES, INC.	GEORGIA
PROFESSIONAL SURGERY CORPORATION OF ARKANSAS	ARKANSAS
PUEBLO MEDICAL CENTER, INC.	NEVADA
RCW OF EDMOND, INC.	OKLAHOMA
RADIATION THERAPY ASSOCIATES OF CALIFORNIA, L.L.C.	CALIFORNIA
RELATIONAL THERAPY CLINIC, INC.	LOUISIANA
RENAISSANCE WOMEN'S CENTER OF AUSTIN, L.L.C.	TEXAS
RENAISSANCE WOMEN'S CENTER OF EDMOND, L.L.C.	OKLAHOMA
RIVER CREST HOSPITAL, INC.	TEXAS
RIVER OAKS, INC.	LOUISIANA
RIVER PARISHES INTERNAL MEDICINE, INC.	LOUISIANA
SOSC, INC.	NEW HAMPSHIRE
SOUTHERN INDIANA RADIATION ONCOLOGY ASSOCIATES, L.L.C.	INDIANA

SPARKS FAMILY HOSPITAL, INC.	NEVADA
ST. GEORGE SURGICAL CENTER, L.P.	DELAWARE
ST. LOUIS BEHAVIORAL MEDICINE INSTITUTE, INC.	MISSOURI
SUMMERLIN HOSPITAL MEDICAL CENTER, L.L.C.	DELAWARE
SUMMERLIN HOSPITAL MEDICAL CENTER, L.P.	DELAWARE
SURGERY CENTER OF LITTLETON, L.P.	DELAWARE
SURGERY CENTER OF MIDWEST CITY, L.P.	DELAWARE
SURGERY CENTER OF PONCA CITY, L.P.	DELAWARE
SURGERY CENTER OF SPRINGFIELD, L.P.	DELAWARE
SURGERY CENTER OF WALTHAM, LIMITED PARTNERSHIP	MASSACHUSETTS
THE ALLIANCE FOR CREATIVE DEVELOPMENT, INC.	PENNSYLVANIA
THE ARBOUR, INC.	MASSACHUSETTS
THE BRIDGEWAY, INC.	ARKANSAS
THE PAVILION FOUNDATION	ILLINOIS
TONOPAH HEALTH SERVICES, INC.	NEVADA
TRENTON STREET CORPORATION	TEXAS
TURNING POINT CARE CENTER, INC.	GEORGIA
TWO RIVERS PSYCHIATRIC HOSPITAL, INC.	DELAWARE
UHS ADVISORY, INC.	DELAWARE
UHS HOLDING COMPANY, INC.	NEVADA
UHS LAS VEGAS PROPERTIES, INC.	NEVADA
UHS MANAGED CARE OPERATIONS, L.L.C.	PENNSYLVANIA

UHS MIDWEST CENTER FOR YOUTH AND FAMILIES, INC.	INDIANA
UHS RECEIVABLES CORP.	DELAWARE
UHS RECOVERY FOUNDATION, INC.	PENNSYLVANIA
UHS OF BELMONT, INC.	DELAWARE
UHS OF BETHESDA, INC.	DELAWARE
UHS OF D.C., INC.	DELAWARE
UHS OF DELAWARE, INC.	DELAWARE
UHS OF FAYETTEVILLE, INC.	ARKANSAS
UHS OF FLORIDA, INC.	FLORIDA
UHS OF FULLER, INC.	MASSACHUSETTS
UHS OF HAMPTON LEARNING CENTER, INC.	NEW JERSEY
UHS OF HAMPTON, INC.	NEW JERSEY
UHS OF HARTGROVE, INC.	ILLINOIS
UHS OF MANATEE, INC.	FLORIDA
UHS OF NEW ORLEANS, INC.	LOUISIANA
UHS OF ODESSA, INC.	TEXAS
UHS OF PENNSYLVANIA, INC.	PENNSYLVANIA
UHS OF PUERTO RICO, INC.	DELAWARE
UHS OF RIVER PARISHES, INC.	LOUISIANA
UHS OF TIMBERLAWN, INC.	TEXAS
UHS OF WALTHAM, INC.	MASSACHUSETTS
UHSMS, INC.	DELAWARE
UHSR CORPORATION	DELAWARE

UNIVERSAL COMMUNITY BEHAVIORAL HEALTH, INC.	PENNSYLVANIA
UNIVERSAL HMO, INC.	NEVADA
UNIVERSAL HEALTH NETWORK, INC.	NEVADA
UNIVERSAL HEALTH PENNSYLVANIA PROPERTIES, INC.	PENNSYLVANIA
UNIVERSAL HEALTH RECOVERY CENTERS, INC.	PENNSYLVANIA
UNIVERSAL HEALTH SERVICES OF CEDAR HILL, INC.	TEXAS
UNIVERSAL HEALTH SERVICES OF CONCORD, INC.	CALIFORNIA
UNIVERSAL HEALTH SERVICES, INC.	DELAWARE
UNIVERSAL PROBATION SERVICES, INC.	GEORGIA
UNIVERSAL TREATMENT CENTERS, INC.	DELAWARE
VALLEY HEALTH SYSTEM, L.L.C.	DELAWARE
VALLEY HOSPITAL MEDICAL CENTER, INC.	NEVADA
VALLEY SURGERY CENTER, L.P.	DELAWARE
VICTORIA REGIONAL MEDICAL CENTER, INC.	TEXAS
WELLINGTON PHYSICIAN ALLIANCES, INC.	FLORIDA
WELLINGTON REGIONAL MEDICAL CENTER INCORPORATED	FLORIDA
WESTLAKE MEDICAL CENTER, INC.	CALIFORNIA

EXHIBIT 24

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements on Forms S-8 (File No. 33-43276), (File No. 33-49426), (File No. 33-49428), (File No. 33-51671), (File No. 33-56575), (File No. 33-63291), and (File No. 333-13453),and Form S-3 (File No. 333-85781).

ARTHUR ANDERSEN LLP

Philadelphia, PA
March 29, 2000

5
1,000
U.S. Dollars

Year
Dec-31-1999
Jan-01-1999
Dec-31-1999
1
6,181
0
307,294
0
41,173
403,249
1,214,890
437,837
1,497,973
217,200
419,203
0
0
306
641,305
1,497,973
0
2,042,380
0
1,557,673
168,913
166,139
26,872
122,783
45,008
77,775
0
0
0
77,775
2.48
2.43